Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Ottawa, Canada
K1A 0H2

December 10, 1998

(1)

The Honourable Paul Martin, P.C., M.P.
Minister of Finance
21st Floor, East Tower
L'Esplanade Laurier
140 O'Connor Street
Ottawa, Ontario
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Dear Minister:

I attach the Report of the Office of the Superintendent of Financial Institutions on prudential aspects of the two merger proposals, one from the Royal Bank of Canada and the Bank of Montreal, and the second from the Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank.

As you know, OSFI operates under strict confidentiality constraints. However, this report has been drafted so that you can make it public, and I believe it would be appropriate to do so.

Yours very truly,

John Palmer
Superintendent

Attach.

cc. Hon. Jim Peterson, Secretary of State (International Financial Institutions)

Canada

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OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

REPORT TO THE MINISTER OF FINANCE

SUBJECT: PROPOSED MERGERS BETWEEN THE ROYAL BANK OF CANADA AND THE BANK OF MONTREAL, AND THE CANADIAN IMPERIAL BANK OF COMMERCE AND THE TORONTO-DOMINION BANK

OTTAWA, CANADA

DECEMBER 10, 1998

Canada

Office of the Superintendent of Financial Institutions Canada
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REPORT TO THE MINISTER OF FINANCE

Subject: **Proposed merger of the Royal Bank of Canada and the Bank of Montreal and Proposed merger of the Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank**

Purpose and Background

In the course of discussions taking place in August of this year, you asked my Office (OSFI) to advise you whether there are prudential reasons why you should not consider two bank merger proposals, one from the Royal Bank of Canada and the Bank of Montreal, and the second from the Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank. This report responds to that request.

Questions to be Answered

In advising you on these merger proposals, OSFI has sought to answer two questions:

1. If the merger proposals were to be allowed, would there be circumstances or issues which would be likely to have a material, adverse impact on the financial viability of either merged bank going forward, or would there be other material concerns as to the safety and soundness of either merged bank?

2. If the merger proposals were to be allowed and one of the merged banks were to experience serious financial problems, would the resolution of those problems be more difficult than would be the case if any one of the predecessor banks experienced such problems?

Work done by OSFI

To develop a view on the prudential aspects of the two merger proposals, OSFI began with an analysis of the current financial condition and risk profile of each of the merging banks, based on existing supervisory information. OSFI then considered relevant literature on mergers, consulted with other regulators on their merger experience, and worked with the banks to review and analyze the merger proposals, financial forecasts and relevant reports, and to discuss merger strategies and integration plans. The views of several banks and federal government agencies were also sought on issues to be considered in the resolution of any serious financial problems encountered by the merged banks.

Limitations on OSFI's review

There were certain limitations on OSFI's review which included the following:

- Canadian experience with large mergers, particularly in the financial sector, is limited. Therefore, much of the merger literature reviewed by OSFI related to American transactions, and most dealt with acquisitions as distinct from "mergers of equals".

- As requested, OSFI considered the merger proposals as presently structured, and did not consider the prudential consequences of any potential modifications to the merger proposals.

- Because it has not yet been decided whether the proposed mergers can proceed, and there have been constraints on the merging banks in sharing confidential and proprietary information with their potential merger partners, planning for the mergers has not yet reached an advanced stage. Since many merger risks arise out of the integration process and detailed integration plans have not yet been completed, OSFI is not in a position to make conclusive recommendations on the prudential risks of these merger proposals, and nor have such recommendations been sought.

OSFI's Findings

Based on the work completed and subject to the limitations described above, OSFI's findings are as follows:

1. It is not possible to make generalized statements as to whether larger banks are financially stronger than smaller banks or whether mergers of financial institutions increase or decrease their financial strength. The record is mixed. There are examples of both increased and decreased financial strength.

2. Mergers of large institutions are difficult to accomplish and create major challenges in developing a coherent strategy for the new organization, and in integrating people, processes, technologies and risk management frameworks. The quality of the strategy and the integration process can impact significantly on the success of the merger. Because of the importance of the integration process, the merged institution is at greatest risk in the period following the merger, during which most of the integration activity takes place.

3. It is evident that mergers of more or less equal-sized institutions are more difficult to accomplish successfully than mergers which are, in effect, acquisitions.

4. Despite the evident risks in mergers, OSFI has not identified circumstances or issues which would be likely to have a material, adverse impact on the financial viability of either merged bank, nor has OSFI identified other material concerns as to the safety and soundness of the merged banks. Therefore, subject to the above-described limitations, OSFI is not able to identify any prudential reasons, in and of the two merger proposals themselves, why you should not consider them. In OSFI's view, this finding is supported by the following:

   - All four banks showed a high degree of awareness of the risks of mergers and the need for a clear merger strategy and careful, well-thought-out integration planning.

   - The banks have invested considerable time researching previous mergers and those factors which make them more or less successful. They have met with executives of other banks participating in past mergers and have engaged consultants with substantial merger experience.

   - The banks demonstrated a good understanding of possible merger integration issues and provided plausible and well-thought-out approaches for dealing with each, particularly in such important areas as people, processes, technologies and risk management frameworks.

   - The banks have put in place organization structures to manage the integration process and minimize the risk of disruption to their core businesses.

   - OSFI's stress testing of the financial forecasts for the merged banks shows considerable capacity to absorb a combination of moderate financial shocks without falling below required capital or other prudential limits.

5. Although there are important differences between the merger proposal put forward by the Royal Bank of Canada and the Bank of Montreal and that of the Canadian Imperial Bank of Commerce and The Toronto-Dominion Bank, those differences do not affect OSFI's overall findings.

6. The increased size and complexity of the merged banks would create supervisory challenges and could require new approaches. These issues do not affect OSFI's overall findings.

7. In considering the issue of resolving serious financial problems encountered by either of the merged banks, prior experience must be taken into account. While Canadian financial institutions have experienced problems in the past, in some cases leading to failure, there have been few failures of large financial institutions and, for many years, no failures of major Canadian banks.

8. The four merging banks have argued that their merger proposals, if allowed, would enhance financial strength and would reduce the risk of significant financial problems, thus diminishing the possibility that any resolution issues would arise. The banks have also discussed with OSFI strategies, building on the two merger proposals, which are intended to reduce the risk profiles of the merged banks. However, OSFI is not able to conclude, on the basis of existing evidence, that the merged banks arising out of the two merger proposals would necessarily be financially stronger than their predecessors. They could be stronger, but much would depend on success achieved in integrating the merging banks and in executing strategies directed at reducing their risk profiles. In this regard, it is also important to consider OSFI's mandate, which makes clear that financial institutions by their nature take risks, and thus can face financial problems which can lead to failure. This mandate does not distinguish between financial institutions based on size. Therefore, in OSFI's view, the resolution issue remains relevant.

9. If a major Canadian bank were to experience serious financial problems now, there would be a range of options available to the bank, its shareholders and creditors as well as OSFI, the Canada Deposit Insurance Corporation and, if necessary, the Bank of Canada, for resolving these problems. These options could include one or more of recapitalization, sale of individual businesses, various forms of restructuring, liquidation and piecemeal or en bloc sales of individual assets and business lines, and an outright sale of the bank to another financial institution. If the mergers were approved and one of the merged banks experienced serious problems, these options would probably remain, but, given the relative size of the institution in relation to potential buyers and investors, some would be more difficult and more time consuming to implement, and a "least cost" resolution could be more difficult to achieve. Furthermore, to make full use of certain options, changes to ownership, competition and other policies might be required. For example, a resolution involving a merger or sale to a non-Canadian financial institution might not be acceptable under the government's ownership policy, while a resolution involving a transfer of assets or sale of a business unit to one or more large financial institutions might breach the thresholds established under competition policy. The importance of these issues to your decision can only be assessed by the government, because they would involve trade-offs between potentially conflicting policy objectives.

John Palmer
Superintendent

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December 11, 1998

Mr. John E. Cleghorn
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c.c. The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Dear Chairmen:

The mandate of the Competition Bureau is to ensure that Canada has a competitive marketplace and that all Canadians enjoy the benefits of competition. This requires that proposed mergers be reviewed to determine if they are likely to result in a substantial lessening or prevention of competition.

After a comprehensive review, the Bureau has concluded that the merger of the Royal Bank of Canada and the Bank of Montreal (the Banks), as proposed, is likely to lead to a substantial lessening or prevention of competition that would cause higher prices and lower levels of service and choice for several key banking services in Canada.

Traditionally, when the Bureau concludes that a proposed merger is likely to harm competition, it invites the merging parties to propose remedies to remove the likely lessening of competition. Any remedies must ensure that the concerns are removed in all affected markets. Typically, this has involved selling assets and restructuring the proposal.

However, in this case, as stated in the *Merger Enforcement Guidelines as Applied to a Bank Merger* (the Guidelines), this letter outlines in general terms the sort of measures that have historically been applied to deal with competitive concerns. It is up to the parties to determine if it is appropriate to explore potential remedies with the Bureau after receiving this letter and after taking into account any public interest concerns expressed by the Minister of Finance.

The Bureau has assessed the proposed merger in the traditional manner by gathering information and analysing any possible anti-competitive effects, such as undue concentration, which would indicate a lessening of competition should the merger proceed. The details of the process followed were announced in July 1998 and are contained in the Guidelines.

The Bureau has no regulatory authority to allow or disapprove mergers. Its role is to review the proposed merger for its impact on competition and make the results of its review known to the Banks. In this case, the Bureau will also send a copy of this letter to the Minister of Finance who has the ultimate authority to approve the merger under the *Bank Act*.

The Bureau uses a two-year time frame within which to assess the likely competitive impact of a merger. For the purposes of its analysis, the Bureau examined the impact on competition of all banking services and determined that a detailed analysis was required for three major lines of business in which the banks are engaged: branch banking services to individuals and businesses, credit cards, and securities.

Other areas of banking did not pose competition concerns and therefore were not subject to detailed review. While the Bureau anticipates a number of significant changes to the banking industry over the next decade due to innovation and technology, these are unlikely to mitigate the anti-competitive impact of the proposed merger in the next two years.

As outlined in the Guidelines, the Bureau conducted the analysis of both the proposed merger of the Royal Bank of Canada and Bank of Montreal and that of the Toronto-Dominion Bank (TD) and the Canadian Imperial Bank of Commerce (CIBC) at the same time. To ignore either proposed transaction in the analysis of the other would fail to capture the full impact of both occurring at the same time. In this regard, it is important to assess how the removal of two major banks would affect concentration levels and the competitive vigour of the industry.

SUMMARY OF CONCLUSIONS

As a result of the review conducted by the Bureau and on the basis of the materials submitted, advice of experts, and information provided by third parties, the merger as presently structured will have the following results.

A. BRANCH BANKING

For individuals, branch banking services consist of personal transaction accounts, personal loans/lines of credit and residential mortgages.

For businesses, in particular small and medium-sized businesses (SMEs), these services consist of business transaction accounts and related services, and operating loans.

(i) The proposed merger:

- **will result in a substantial lessening of competition in 104 of the 224 local markets in which these banks compete;**

- **may result in a substantial lessening of competition in another 71 local markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**

- **will not result in a substantial lessening of competition in the remaining 49 local markets.**

(ii) The proposed merger:

- **will result in a substantial lessening of competition in British Columbia, Saskatchewan, Manitoba, Ontario and Nova Scotia for mid-market businesses with operating loans between $1 million and $5 million.**

B. CREDIT CARDS

(i) The proposed merger:

- **will result in a substantial lessening of competition in the market for general purpose credit card network services if the Bank of Montreal's MasterCard portfolio is converted to Visa;**

- **will not result in a substantial lessening of competition if the Royal Bank's Visa portfolio is converted to MasterCard; however, the dominance of the combined bank within MasterCard needs to be addressed.**

(ii) The proposed merger:

- **will not result in a substantial lessening of competition in the market for the issuing of general purpose credit cards to individuals.**

(iii) The proposed merger:

- **will not result in a substantial lessening of competition in the *MasterCard* merchant acquiring market (the business of providing settlement of MasterCard credit card transactions to merchants) if the Royal Bank of Canada converts to MasterCard.**

(iv) The proposed merger:

- **may result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring (the business of providing both terminals and settlement of credit card transactions to merchants) for SME merchants.**

  ***Primary* merchant acquiring is problematic and requires further detailed review at the local or regional level before we can confirm if a substantial lessening of competition will result.**

- **will result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring for SME merchants should both mergers proceed.**

C. SECURITIES

(i) The proposed merger:

- **will result in a substantial lessening of competition in 39 markets of the 63 local markets in which Nesbitt Burns and RBC Dominion Securities compete in full-service brokerage;**

- may result in a substantial lessening of competition in 16 markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;

- will not result in a substantial lessening of competition in 8 markets.

These conclusions are based in part on the market share levels as measured by assets under administration in local markets. The Bureau would be prepared to review these conclusions, if information having a material impact becomes available at the local level which would indicate that the market shares, as calculated, significantly overstate the market position of the Bank-owned firms.

(ii) The proposed merger:

- may result in a substantial lessening of competition in the national market for the underwriting of equity issues exceeding $50 million; this market is problematic and requires further detailed review before we can confirm if a substantial lessening of competition will result.

THE PROPOSED MERGER

The Royal Bank of Canada and the Bank of Montreal notified the Bureau of their proposal on January 23, 1998. This immediately triggered a review under the merger provisions of the *Competition Act*. The Banks seek to amalgamate under the *Bank Act* to combine all their operations which provide a broad range of services to both individuals and businesses through their national branch networks, credit card operations and securities firms.

The proposed merger would combine the banks ranked first and third in Canada based on the value of Canadian assets. As of December 31, 1997, the merging banks held approximately $315 billion in assets in Canada.

The Banks have taken the position that it is necessary to become larger and more efficient to compete effectively, both in Canada and internationally. The Banks contend that larger foreign institutions have a cost advantage, including those using electronic technology to deliver financial services, and are becoming an increasing threat. The Banks also assert that the merger would result in significant cost savings, and claim that competition would not be lessened in the delivery of any service in Canada.

SCOPE OF THE BUREAU'S REVIEW

The Bureau's mandate under the *Competition Act* is confined to assessing whether or not a proposed merger is likely to lessen or prevent competition substantially. This will be the case when a merger is likely to result in higher prices, less choice or reduced service. Any merger that is likely to have such an impact may be prohibited under the Act, unless there are efficiencies created by the merger that outweigh the negative impact on competition.

Throughout its review, the Bureau obtained information from the four banks, including approximately 400,000 pages of documents. The Bureau met with representatives of the Royal Bank of Canada and Bank of Montreal at every stage of the process to ensure that it fully understood the Banks' position, to obtain information, and to explain and discuss the results of its review.

The Bureau obtained valuable information from individuals, groups representing consumers and business, other providers of financial services, and government agencies. Furthermore, the Bureau sought the advice of more business and economic experts than in any other merger it has reviewed.

The review process took approximately 10 months because of the voluminous nature of the documentation, the complexity of the banking business, the timing of the report of the Task Force on the Future of the Canadian Financial Services Sector (the Task Force), and the need to obtain information under court order from third parties and the Banks.

Attached as Appendix A is a glossary of terms and definitions that the Bureau has compiled in conducting its review.

ANALYTICAL APPROACH

The analysis conducted by the Bureau covered an extensive range of products and geographic areas in which the banks compete throughout the country. The framework for analysis in the Guidelines was written after extensive public consultation and reflected a broad consensus that the Bureau was using the right approach.

As explained in the Guidelines, there are four major steps in determining whether or not a particular bank transaction would substantially lessen or prevent competition.

- ***Relevant markets are defined*** to identify which products, where and with whom the banks compete. A relevant market consists of a group of products that are close substitutes. Each group represents a separate product market with its own geographic market dimensions.

- ***Market shares and concentration levels are calculated*** for each relevant market. A more detailed review is generally required if a) the share held by the banks is 35% or greater, or b) the combined share held by the four largest competitors is 65% or greater (and the share held by the merging banks exceeds 10%).

- ***A variety of competitive criteria are evaluated*** for each relevant market under detailed review. The goal is to determine whether or not the merger is likely to result in a substantial lessening or prevention of competition. These typically include the extent of foreign competition faced by the banks, the barriers that would be encountered should other companies wish to enter a particular market, the impact of technology, whether or not the merger will remove a vigorous and effective competitor, the effectiveness of the remaining competition, and any other factor relevant to competition.

- ***Claimed efficiencies are considered*** if it is concluded that the merger results in a substantial lessening or prevention of competition. The Act provides that a merger may proceed provided a) it is likely to result in efficiencies that would not otherwise be realized and b) such efficiencies would outweigh the anti-competitive impact.

Under the Bureau's analytical approach, it is presumed a merger will not harm competition when markets are unconcentrated, entry is easy and effective competition remains. Therefore, the analysis may end if at any stage the evidence demonstrates that the relevant market will not result in competition concerns.

COMPETITION ANALYSIS

A. BRANCH BANKING

This section examines the markets for branch banking services provided to consumers and businesses in Canada.

Product Markets

Personal Financial Services

Within this category of services provided to individuals through branches, the Bureau defined the following product markets:

Personal long-term investments	**Personal transaction accounts**
Personal short-term savings	**Residential mortgages**
Student loans	**Personal loans/lines of credit**

Personal long-term investments include most mutual funds, bonds and stocks. Personal short-term savings include guaranteed investment certificates, money market mutual funds, Canada and provincial savings bonds, and treasury bills.

The Bureau concluded that no detailed review was required with respect to student loans, personal long-term investments and short-term savings. Either the remaining competition was effective or the applicable thresholds were not crossed for these products. A detailed review was required for the remaining product markets.

Personal Transaction Accounts

Transaction accounts are the core of the personal banking relationship. They enable an account holder to make deposits and withdrawals through savings or chequing accounts and to receive reports on those activities. These transactions may take place either at the local branch or through some other means such as an automated banking machine (ABM), debit card, telephone, personal computer or the Internet.

Residential Mortgages

A residential mortgage is the principal form of long-term personal debt for many Canadians. Most mortgages are used to buy a home. For those with significant equity, it is possible to use a line of credit to fund a home purchase. However, this option is not open to home-owners with lower levels of equity. Consequently, we

have decided that residential mortgages are sufficiently distinct from lines of credit that they constitute a relevant product market.

Personal Loans/Lines of Credit

Personal loans and lines of credit are another distinct type of consumer credit for the purposes of our analysis. Credit cards, with the exception of low-rate credit cards, carry interest rates that are more than twice the interest rates of personal loans and lines of credit and therefore are not considered good substitutes. Similarly, loans from consumer finance companies are priced so much higher than loans from deposit-taking institutions that they have been excluded from this market.

BUSINESS FINANCIAL SERVICES

Within the category of services provided to businesses at the branch level, the Bureau defined the following product markets:

Term loans
Business transaction accounts and related services
Operating loans

Term loans, including non-residential mortgages, are generally mid- to longer-term in nature and typically secured by collateral to purchase equipment, buildings and real estate. We have included leased equipment in this category. The Bureau concluded that no detailed review was required for term loans, because the remaining competition was effective and provided businesses with adequate competitive alternatives or the applicable thresholds were not crossed. A detailed review was required for the remaining product markets.

Business Transaction Accounts and Related Services

Transaction accounts are the core of the business banking relationship. They allow firms to pay bills and collect receivables. Other products, such as night deposit and cash and coin services, are generally linked to this account.

Operating Loans

Operating loans are intended for the short-term operating needs of businesses such as financing receivables and inventory. Banks will generally not give an operating loan unless a business has its transaction account at the same bank. This gives the lending banks the ability to monitor a customer's business on a continuing basis. To gauge the potential impact of the proposed merger in this market, it is necessary to examine the competitive choices available to firms of different sizes.

Since large corporations typically have access to more domestic and foreign suppliers and ready access to capital markets, operating loans to these businesses were not considered problematic. Small and medium-sized[1] businesses generally have fewer choices and rely on banking services at the local level. Operating loans with authorizations up to $1 million were examined for SMEs. Larger firms in the mid-market tier also face more limited choices than those in the large corporate sector. Loan authorizations in the $1-million to $5-million range were examined for these mid-market firms.

GEOGRAPHIC MARKETS

After extensive examination of the records produced by the Banks, interviews with industry participants, econometric analysis prepared by the Bureau, and on the advice of the experts retained by the Bureau, we have concluded that the geographic market is local for the relevant products listed above, for customers of personal financial services, and for SME businesses.

For mid-market loans between $1 million and $5 million, the geographic market is regional in scope. The Bureau has used provincial boundaries to approximate these regional geographic markets.

The Bureau identified 112 local markets in urban areas with populations of 10,000 to 100,000, using the integrated economic areas identified by Statistics Canada as census agglomerations (CA), and 25 urban areas of more than 100,000 people identified by Statistics Canada as census metropolitan areas (CMA). In total, there are 137 local urban markets. The operations of the Banks overlap in 125 of these urban markets.

In rural areas, the Bureau examined the competitive environment of all branches of the Royal Bank of Canada and Bank of Montreal within 20 km of each other. This

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[1] The SME sector encompasses a diverse range of businesses and services that defy easy measurement based on dollar sales or loans outstanding. However, to simplify the analysis, the Bureau has adopted the definition of SME borrowers used by the Conference Board, that is, firms that borrow $1 million or less. Within the SME sector, there are at least two distinct groups based on the nature of security offered for the loan: individuals and small firms that rely on a personal covenant; and firms that secure the loan based on an assessment of the creditworthiness of the business itself. In attempting to capture these differences, the Bureau looked at market share information for operating loans up to $200 000 and between $200 000 and $1 million.

decision was based largely on the banks' documents. As a result, 99 local rural markets were identified for the proposed merger.

In total, the operations of the Royal Bank of Canada and Bank of Montreal overlap in 224 local markets.

The Banks have argued that the market for all banking products is national. As noted above, the evidence gathered by the Bureau, including the records of the Banks, indicates the market is local. In the alternative, the Banks proposed that the Bureau conduct its analysis based on 112 areas which they have argued are integrated economic areas for the purposes of the analysis of financial services.

While the Bureau is not convinced that these areas are appropriate in many cases, it has run a market share analysis based on these proposed geographic areas and found that very similar conclusions are reached compared with those using the Bureau's local market definition. For example, where personal transaction accounts were examined, 63% of these areas exceed the 35% market share threshold, while in the case of the local markets used by the Bureau, 66% of the local markets exceed the 35% market share threshold.

MARKET SHARE AND CONCENTRATION LEVELS

Given that the four firm concentration threshold was exceeded for at least one of the products under detailed review in each market, the Bureau's review included all 224 local markets.

For operating loans to mid-market firms in the $1-million to $5-million range, the 35% threshold was exceeded in seven provinces.

In order to calculate these market shares and concentration levels for branch banking products, the Bureau obtained the market share data base maintained by the Canadian Bankers Association (CBA), and supplemented it with information from many other financial institutions and the Canadian Payments Association. As a result, the data base includes nearly all deposit-taking institutions. For those products where non-deposit taking institutions are significant competitors, such as insurance companies for residential mortgages, further adjustments to the data base have been made.

This data base is the best available in Canada at this time. The Banks have raised a number of issues relating to the CBA data base. For example, the CBA data base does not categorize business transaction account data by size of business. This may result in some market shares being either over- or understated for SME firms. The Bureau is willing to further discuss these issues with the Banks.

COMPETITIVE CRITERIA

Barriers to Entry

In order to assess the effect of the merger on competition, the Bureau must consider the height of entry barriers into banking markets. Even where a merger exceeds the Bureau's initial thresholds, if barriers to entry are low, the merged firms will be constrained by the likelihood of new entrants, and will behave in a manner consistent with a competitive market. In conducting this analysis, the Bureau considers whether or not entry or expansion on a scale sufficient to offset a substantial lessening of competition is likely to occur within a two-year period following the merger.

The Bureau has concluded that the entry barriers for new entrants into branch banking are high.

The extensive branch networks of the five major banks represent a significant sunk investment that is difficult for new entrants to replicate. Moreover, it takes an extended period of time before a branch can be expected to break even, with estimates ranging from three to seven years. It should also be noted that the major banks have an advantage over new entrants in that they have already secured the best locations in most markets.

No one interviewed by the Bureau expects significant new entry into branch banking. Consequently, we have concluded new branch bank entry, other than by acquisition, is highly unlikely.

In addition to the costs of establishing a branch network, new entrants face a number of other barriers. There is some evidence that economies of scale and scope make entry more difficult for smaller firms. The evidence also indicates that customers are reluctant to switch their primary financial institution where their transaction account resides. Contributing factors would be the widespread use of direct payroll deposit and automatic bill payment.

In addition, the major banks have strong brand names that have been developed over decades of advertising, and reinforced by local branch presence throughout Canada. An indication of the strength of customer loyalty is demonstrated by a report prepared for the Task Force that says no institution has gained more than 1% market share in any year except by acquisition.

We recognize that the supply of residential mortgage loans is becoming less branch-dependent due to the development of alternative origination channels. We note that the growth of new entrants for this product is constrained by consumers' limited acceptance to date of the use of independent mortgage brokers, the Internet, telephone and mail. This is particularly the case in rural and remote communities.

Small and medium-sized business customers appear to be even more branch-dependent than personal banking customers, due to the need for services such as night deposit, and cash and coin services. As with individual consumers, SME customers do not change their primary banking relationship very often, which makes it more difficult for new entrants to attract customers.

There are also a number of regulatory barriers that discourage entry:

- Capital taxes must be paid regardless of profitability, raising the sunk costs of entry through start-up losses.

- Capital requirements and reporting costs are proportionately a greater burden for smaller firms.

- Provincial regulation or business power restrictions in the federal *Cooperative Credit Associations Act* may place limits on the ability of credit unions to compete in certain areas, such as commercial lending.

- After 10 years, new Canadian banks (other than those owned by financial institutions which are themselves widely-held) become subject to the widely-held rule. This means that no shareholder can own more than 10% of any class of shares.

- This 10% rule combined with the rules requiring the head office to be located in Canada and the majority of the board of directors to be Canadian residents, effectively eliminates the possibility of foreign entry through the acquisition of an existing Schedule I bank.

- Once a Schedule II bank or trust company has equity of $750 million or greater, there must be a public float of at least 35% of its voting shares, subject to exemption by the Minister of Finance.

- Access to the payments system is limited to federally and provincially regulated deposit-taking institutions.

While existing competitors do not face the same levels of barriers new entrants face, expansion is impeded by the high costs of gaining new customers due to switching costs and the expectation that branch profitability may not be realized for up to seven years.

Changes in Technology and Innovation

The Bureau has examined the impact that technology and innovation may have on lowering the barriers to entry and expanding the scope of the geographic market. While Canadians are making increased use of technology to do their banking, all evidence indicates that branches remain crucial to the success of a bank. Experts say this is unlikely to change within two years following the merger, which is our period of analysis.

The Banks have indicated that the role of the traditional branch has been transformed as customers have migrated to the newer channels of distribution such as automated banking machines, debit cards, telephone, personal computer and Internet banking.

These methods of distribution, however, have not eliminated the need for bank branches. Personal contact, including advice and problem solving, remains key for sales of many financial products. All of the major banks are in the process of reconfiguring their branches to improve their sales capability, and have underlined the continuing importance of branch banking to build and maintain the relationships between bankers and their personal and business customers.

According to the McKinsey & Company report prepared for the Task Force, transaction volume through branches from 1994 to 1996 grew at a 3% annual rate. While recent data for some major banks indicates a decline in transaction volume as these newer channels of distribution have become more popular, our conclusion remains that branches will continue to be an important point of access to financial services for many bank customers for the foreseeable future.

The Banks have argued that Internet banking will significantly reduce barriers to entry and widen the scope of the geographic market by eliminating the need for a costly physical presence. Internet or virtual banking is in a very early stage of development. According to a recent Ernst and Young report, Internet banking is generally viewed by users at this time as a poor substitute for many of the services provided by a branch. As well, security considerations remain a barrier to widespread consumer acceptance and adoption.

In the view of a technology expert made available by one of the merging Banks, Internet technology will not replace the need for physical presence in the next five to ten years. Another expert interviewed by the Bureau puts the time frame at between 10 and 15 years. These time frames are well beyond the two-year period considered by the Bureau in assessing the potential for new effective competitors to emerge.

In some respects, technology may have raised rather than lowered barriers to entry. According to records produced by the banks, customers have come to expect access to the new channels of distribution as a complement to using their branches.

The major banks, for example, have established proprietary nationwide ABM networks. While the Interac system allows cash withdrawal on a shared basis, other functions, such as deposits, passbook update, the transfer of funds between financial institutions, and bill payment, are not currently offered on a shared basis over the Interac network. New entrants would have to offer a network of ABMs to match the major banks. Should the Interac system allow for full functionality, including deposit-taking and funds transfer, the need for an extensive proprietary ABM network for new entrants would be reduced.

Foreign Competition

The Bureau defines foreign competition as those foreign institutions that are able to offer Canadian consumers financial services from outside Canada. Due to regulatory constraints, such competition is minimal for individual banking products. Foreign-controlled deposit-taking institutions that operate in Canada are discussed in the section on effective competition remaining.

Removal of an Effective Competitor

The proposed merger will reduce from five to four the number of major national banks competing in Canada. As the first- and third-largest banks in Canada, the Royal Bank of Canada and the Bank of Montreal are obviously effective competitors and customers have benefited from the competition between them. This is particularly true for operating loans to SMEs where the Banks are the two largest lenders in Canada.

While recognizing that the Banks have characterized the proposed transaction as a merger of equals, we note that the Bank of Montreal, for example, led the other banks for a number of years in decreasing the prime rate. The Banks' records indicate that Bank of Montreal has also been one of the most aggressive in mortgage pricing and SME lending. In addition, it has introduced a major new brand, Mbanx, for electronic banking.

The loss of such a major competitor is further cause for concern in light of the already high levels of concentration that exist in most local markets.

Effective Competition Remaining

Assessing the effectiveness of the remaining competition is an important consideration in determining whether or not the merged bank would be constrained in raising prices or reducing the quality or level of service. While we focus here on other deposit-taking institutions, we also took into consideration the competition provided by non-deposit taking institutions. This was most evident in residential mortgages where adjustments were made to market shares to account for the competition provided by other institutions.

The National Bank of Canada and Le Mouvement des Caisses Desjardins (Caisses Desjardins) represent significant competition in Quebec, and there are fewer competition concerns arising from the proposed merger in that province.

Canada Trust is an important regional player in Ontario, Alberta and British Columbia. Of the Schedule II Banks, only the Hongkong Bank of Canada has meaningful retail banking presence, with about 117 branches located in major centres and throughout British Columbia.

The credit unions appear to be effective competitors to the banks in Saskatchewan, Manitoba and the lower mainland of British Columbia, but are small players in other parts of the country and in business operating loans above $1 million. Alberta Treasury Branches provide competition in many local markets in Alberta.

The Bureau has considered the degree to which these competitors could replace the competition lost as a result of the proposed merger.

The Bank of Nova Scotia clearly has the capacity to expand and does not face the same entry barriers as would a new national entrant. However, the Banks have argued that one of the prime motivations for the merger is to capture additional substantial economies of scale which they believe exist. If this were true, the Bank of Nova Scotia, at less than one-half the size of the merged bank in the domestic market, would be at a significant cost disadvantage and would not be able to compete effectively unless it also merged with another major bank. By the same token, much smaller institutions, such as Canada Trust, National Bank and the credit unions, would be even less able to compete effectively due to much higher cost positions.

As noted above, in the past it has been very difficult to entice consumers to switch their primary banking relationship, except by acquisition. The potential for the merged bank to cross-sell and data mine its larger customer base may further impede switching. While a competitive opportunity may arise during the transition of customers from one of the merging parties to the other, the history of past acquisitions has been that such windows of opportunity last less than one year and

that customer retention by the merging parties has been very high. Under these conditions, the incentive of the remaining firms to compete vigorously could be diminished.

CIBC and TD, individually or jointly, clearly have the ability to compete. As with the Bank of Nova Scotia, a key question is whether or not they would have the same incentive to compete, given the reduction in the number of major competitors resulting from one or both mergers.

The Bank of Nova Scotia, TD and CIBC, as existing banks with national coverage, do not face the same barriers to expansion in individual markets as would new entrants. The effectiveness of such expansion, however, is constrained by customer switching costs and the expectation that branch profitability may take up to seven years. Furthermore, as these banks continue to rationalize their branch networks, it is unlikely that they would choose to enter or expand in mature markets with low growth prospects.

It would be difficult for Canada Trust and the National Bank to replicate the competition removed by the merger where they do not now compete. National Bank, for example, tried to expand significantly into southwestern Ontario in the late 1980s and subsequently withdrew from many locations. As well, Canada Trust has focussed its efforts on faster-growing, affluent urban and suburban markets and has shown little interest in expanding into many mature markets where the major banks are entrenched.

Most credit unions have a limited capacity to take on a large number of additional customers from the merging parties. In addition to capacity constraints faced by some community credit unions, there are a significant number of closed-bond credit unions, whose members are limited to the same employer, industry, ethnic group or parish.

The Banks have pointed to ING Direct (ING) as the type of competitive entrant now emerging. ING offers a non-chequing investment savings account from one office in Toronto. The account can be offered only if the consumer has a chequing account elsewhere. This product has no service fees, no minimum balance requirement and is fully insured by the Canada Deposit Insurance Corporation (CDIC). ING pays a higher rate of interest than the major banks. According to ING advertising, the average rate of interest paid over the past year is more than 10 times that offered by the major banks on a deposit of $4 500. Despite this price differential, ING has attracted less than 0.2% of total consumer deposits in the past 15 months in Canada. It is too early to say how successful this experiment will be. It is also interesting to note that ING will be supplementing its branchless service by establishing a physical presence through ABMs in Canadian Tire stores.

Another method of entry that has gained prominence in other countries is the use of kiosks in retail locations such as grocery or department stores. Two recent examples in Canada are the entry of PC Financial, offered by Loblaws and supplied by CIBC, and the alliance between Toronto-Dominion and Wal-Mart. PC Financial offers a no-fee chequing account as well as personal loans and mortgages at lower rates than the major banks' posted rates, and is competitive with discretionary rates offered by the major banks. While this could be viewed as a new service, it could also be viewed as a different delivery channel for CIBC rather than an entirely new competitor. Such alliances may also reduce access to prime locations for potential entrants.

All of the domestic banks, Canada Trust, and a number of credit unions offer business banking services for SME customers. Of the Schedule II banks, only the Hongkong Bank of Canada has a sufficient number of branches to have any competitive significance in this market.

The Banks point to Wells Fargo as an emerging competitive presence. Wells Fargo has begun a small business lending program in Canada, providing $50 million in loans. It is too early to say whether or not the Wells Fargo model will work well in Canada. With less than 0.05% of all SME lending in Canada, it is clear that it does not constitute a significant competitor today in the Canadian market.

For mid-market firms, most credit unions are not effective competitors, due to the sophistication of the services required and the larger loan size. However, Schedule II banks are able to compete in some urban areas.

Interdependent Behaviour

The Bureau has examined the proposed transaction to determine the potential for a substantial lessening of competition through the exercise of interdependent behaviour at both local and national levels. This lessening can result from either explicit agreements or from implicit recognition among firms that, in the new post-merger environment, reduced competitive vigour would be more profitable for all.

A small number of sellers in any one market increases the risk of interdependent behaviour, and the Bureau has determined that the proposed merger significantly increases concentration in an already concentrated industry. If both proposed mergers proceed, the number of major banks will decline from five to three, and concentration will be even higher. A high level of concentration in the relevant market is a necessary, but not sufficient, condition for determining whether or not interdependent behaviour is likely to substantially lessen or prevent competition.

Other factors that facilitate interdependent behaviour are high barriers to entry, the homogeneity of products, the predictability of demand and costs, the stability of market shares, good information about pricing and customers, and the degree of

industry cooperation (e.g. in associations, joint ventures, alliances, networks and loan syndicates). To a large degree, these factors appear to be present in this industry.

It is important to note that the Bureau does not believe that collusion in banking is likely, given the repercussions such conduct would have if detected. However, in view of the expert advice received by the Bureau on this issue, there is concern that the proposed merger will increase the risk for reduced competitive vigour among the remaining major banks. This risk is compounded should the other proposed merger also proceed.

IDENTIFYING THE PROBLEMATIC MARKETS

To identify those markets in which a substantial lessening of competition would likely occur, the Bureau employed the principles explained below.

- Where the combined share of the Banks in either personal or business transaction accounts is 45% or greater, it is the Bureau's conclusion that the proposed transaction will result in a substantial lessening of competition and would require a remedy. Transaction account data was chosen because it is the core of the banking relationship for personal and business customers.

- Those markets where the combined share in either personal or business transaction accounts is between 35% and 45%, or the combined share of any of the other relevant products exceeds 35%, are problematic. These markets require more review to determine if there are mitigating factors that would cause us to change this conclusion on the basis of new evidence obtained from the Banks and third parties. It should be noted that our concern is heightened by the fact that, in many of these markets, the combined share of the Banks in products other than transaction accounts exceeds 45%, some by a considerable margin.

- The likelihood of concluding that the transaction would result in a substantial lessening of competition for markets in the problematic category is increased if the transaction proposed by CIBC and TD proceeds.

- We have concluded that the merger will not result in a substantial lessening of competition where the combined market share of the Banks is below 35% in any relevant product.

Appendix B provides details on this division of markets. Appendix C identifies the markets that fall into each category. Appendix D describes the rural markets identified by the Bureau.

These appendices set out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in the attached appendices.

CONCLUSIONS

For individuals, branch banking services consist of personal transaction accounts, personal loans/lines of credit and residential mortgages.

For businesses, in particular SMEs, these services consist of business transaction accounts and related services, and operating loans.

(i) The proposed merger:

- **will result in a substantial lessening of competition in 104 of the 224 local markets in which these banks compete;**

- **may result in a substantial lessening of competition in another 71 local markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**

- **will not result in a substantial lessening of competition in the remaining 49 local markets.**

(ii) The proposed merger:

- **will result in a substantial lessening of competition in British Columbia, Saskatchewan, Manitoba, Ontario and Nova Scotia for mid-market businesses with operating loans between $1 million and $5 million.**

B. CREDIT CARDS

PRODUCT MARKETS

Within this category, we defined the following relevant product markets:

General purpose credit card issuing to businesses
General purpose credit card network services
General purpose credit card issuing to individuals
Visa merchant acquiring
MasterCard merchant acquiring
Primary merchant acquiring

The Bureau concluded that no further review was required for general purpose credit card issuing to businesses (including corporate cards and purchasing cards), because the remaining competition was effective and provided businesses with adequate competitive alternatives or because the applicable thresholds were not crossed. For the purposes of this analysis, general purpose credit cards include charge cards such as Diners Club/enRoute or American Express. A detailed review was required for the remaining product markets.

General Purpose Credit Card Network Services

A general purpose credit card network is the system that enables cardholders to have their cards widely accepted for the purchase of goods and services. Competition among networks, such as Visa and MasterCard, is known as inter-system competition. Networks compete with each other by promoting brand awareness and by improving their systems, with the objective of being the preferred method of payment for goods and services.

Competition within a network also occurs among its members. This is known as intra-brand competition. This type of competition is influenced by the number and type of network members, and by the rules and regulations of the network.

GEOGRAPHIC MARKET

The geographic market is national.

MARKET SHARES AND CONCENTRATION LEVELS

In Canada, Visa is the largest network in terms of total dollar volume of purchases made with general purpose credit and charge cards, followed by MasterCard, American Express and Diners Club/enRoute.

COMPETITIVE CRITERIA

Barriers to Entry

The barriers to new entry into the network market are very high, involving significant investment in establishing brand recognition among consumers and merchants, as well as in developing systems infrastructure.

Removal of a Vigorous and Effective Competitor

MasterCard has competed vigorously with Visa in setting rules and fees. MasterCard has adopted more liberal membership rules, allowing non-deposit takers, such as Canadian Tire Acceptance Ltd., to issue its card. It has also allowed new foreign entrants into the Canadian market, such as MBNA Canada Bank (MBNA) and Capital One.

Secondly, it has set lower fees (known as interchange fees) between companies issuing cards and the financial institutions that accept them. Their lower interchange fees lead to "merchant discount rates" (fees charged to merchants for acceptance) that are typically lower for MasterCard than for Visa.

Under the existing rules and policies of Visa and MasterCard, members may not issue both cards. In this environment, the merged Banks must choose which card they will issue to consumers and use for merchant acquiring. Acquiring services refer to the business of providing settlement of credit card transactions to merchants.

The Bank of Montreal is the dominant issuer and the only national merchant acquirer of MasterCard in Canada. If the Bank of Montreal were to switch to Visa, it would likely result in a significant drop in the number of MasterCard transactions in Canada and would seriously undermine its funding base. This would likely lead to the elimination of MasterCard as an effective competing network in Canada and thus reduce inter-system competition. The impact would be felt in both the individual issuing and merchant acquiring markets. There would not be effective competition remaining in the network market were this to occur.

Currently, the Royal Bank of Canada is a major issuer of Visa. A conversion of the Royal Bank of Canada to MasterCard would not raise the same level of concern since Visa would remain an effective network.

However, this scenario is not problem-free. There might well be an incentive for those Royal Bank of Canada customers who now hold a MasterCard from an institution other than Bank of Montreal to switch to a Royal MasterCard because they have their primary banking relationship with Royal Bank of Canada. If this were to

occur, the merged bank would become a more dominant player within MasterCard. This would raise questions about corporate governance within the MasterCard association and on competition among MasterCard members (intra-brand competition).

CONCLUSIONS

The proposed merger:

- **will result in a substantial lessening of competition in the market for general purpose credit card network services if the Bank of Montreal's MasterCard portfolio is converted to Visa;**

- **will not result in a substantial lessening of competition if the Royal Bank's Visa portfolio is converted to MasterCard; however, the dominance of the combined bank within MasterCard needs to be addressed.**

General Purpose Credit Card Issuing to Individuals

While individual consumers use different methods for paying for goods and services, credit cards offer certain unique features that distinguish them from other means of payment. In particular, credit cards offer consumers a convenient form of credit: firstly, in the form of interest-free credit, if the entire balance is paid off within a specified period of time; or alternatively, the ability to carry a balance, if the entire balance is not paid off. Credit cards also provide a number of other features, including widespread merchant acceptance and the ability to make remote purchases.

Charge cards offered by American Express and Diners Club/enRoute offer a number of the same features, except the ability to defer payment for purchases on a pre-approved credit limit. Nor are they as widely accepted by merchants as Visa and MasterCard. However, due to the similarity of credit cards and charge cards, with the advice of experts retained by the Bureau, the Bureau has defined the issuing of Visa, MasterCard, American Express and Diners Club/enRoute cards as a relevant product market.

Given our conclusion that there will be a substantial lessening of competition at the network level should Bank of Montreal convert to Visa, we have limited our analysis on the issuing market to the scenario where Royal Bank of Canada switches to MasterCard.

Geographic Market

While the branch network has historically been an important channel in the issuance of credit cards, the market appears to be changing. Since credit cards are effectively sold to consumers by mail, we have concluded that the geographic market is national.

Market Shares and Concentration Levels

The Bureau estimates that should Royal Bank of Canada convert its current portfolio to MasterCard, the merging parties will have less than 35% of the issuing market, based on gross dollar volume of transactions. If both mergers proceed, the concentration ratio for the top four firms will exceed the 65% threshold.

Competitive Criteria

Barriers to Entry

Barriers to entry for the issuance of general purpose credit cards outside of the established Visa and MasterCard brands are very high, due to the time and difficulty in building widespread consumer and merchant acceptance. However, barriers to entry are not as significant within the established Visa and MasterCard brands.

Recent entry has occurred in the past five years. New MasterCard issuers include Canadian Tire Acceptance Ltd., MBNA, Capital One, Trans Canada Credit and ING Canada Bank. Bank One has recently become a member of Visa Canada and is now issuing cards.

Effective Competition Remaining

There would appear to be effective competition remaining in the market should the merged bank switch the Royal Bank of Canada portfolio to MasterCard. In the past few years, competition has increased with the expansion of MasterCard membership and the entry of U.S. firms that specialize in credit card issuing, namely MBNA, Capital One and most recently Bank One. While MBNA and Capital One currently hold a small share of the market, they offer competitive products that have caused the other card issuers to respond.

Conclusion

The proposed merger:

- **will not result in a substantial lessening of competition in the market for the issuing of general purpose credit cards to individuals.**

Visa Merchant Acquiring and MasterCard Merchant Acquiring

In order to accept credit cards as a method of payment, merchants must contract with an acquirer for services to process and guarantee payment of credit card transactions. Visa or MasterCard acquiring members are responsible for setting the fees charged for this service (the merchant discount rate), for guaranteeing payment to the merchant and for settling with other issuers who are members of either the Visa or MasterCard associations, respectively.

Visa acquirers compete with each other for the right to acquire and settle Visa transactions, while MasterCard acquirers compete with each other to acquire and settle MasterCard transactions. Each Visa acquirer sets the merchant discount rate for its Visa transactions, and each MasterCard acquirer sets the merchant discount rate for its MasterCard transactions.

Most merchants need to be able to accept both Visa and MasterCard. Under the existing rules and policies of Visa and MasterCard, members may not acquire transactions of a competing card. Consequently, Visa merchant acquiring and MasterCard merchant acquiring constitute separate markets.

Since the Royal Bank of Canada is exclusively a Visa acquirer and the Bank of Montreal is exclusively a MasterCard acquirer, there is no competitive overlap in these two product markets. However, it is likely that the Royal Bank of Canada's extensive SME relationships could make the merged firm more dominant within MasterCard. Under the scenario that Royal Bank of Canada converts to MasterCard, there would be no reduction in the number of MasterCard merchant acquirers, but one less Visa merchant acquirer.

Consequently, we have concluded that the proposed merger will not result in a substantial lessening of competition in the MasterCard merchant acquiring market (the business of providing settlement of MasterCard credit card transactions to merchants) if the Royal Bank of Canada converts to MasterCard.

Primary Merchant Acquiring

Primary merchant acquiring can be defined as a package of services sold to merchants, which includes both the provision of terminal services and the provision of either Visa or MasterCard acquiring services.

Terminal services include the provision of the terminal at the merchant's location. It also includes data transmission and software to route transactions to the appropriate network, such as MasterCard, Visa or Interac debit. The majority of terminals now

being deployed in Canada are multi-functional and allow merchants to accept all types of credit cards as well as debit cards.

For small and medium-sized merchants, terminal services and acquiring services for either Visa or MasterCard are usually purchased as a package from the same financial institution, although the Bureau recognizes that, for large merchants, the services may be purchased separately.

Typically, merchants have at least two acquirer relationships, but only one terminal provider. The banks claim that new arrangements are being developed for the convenience of merchants. An example is the "Merchant's Edge" program between CIBC and Canada Trust, where CIBC is the primary acquirer furnishing the terminal and, at the merchant's option, Canada Trust is the MasterCard acquirer setting the MasterCard merchant discount rate. This reduces the need for merchants to establish a second acquiring relationship themselves. However, the Bureau understands that for primary acquirers to establish a partnership of this nature, they need to be assured that their partner will not target their primary acquiring relationships. Such assurance will only arise if the partner has limited or no presence in the primary acquiring market.

GEOGRAPHIC MARKET

Primary Merchant Acquiring

At present, many financial institutions service their merchant acquiring customers through their branches. Increasingly though, financial institutions are relying on centralized service centres and specialized teams of sales representatives to service this market, which may be expected to expand the geographic market to a national level. Consequently, the Bureau has concluded that this is a market in transition to the national level.

MARKET SHARES AND CONCENTRATION LEVELS

The four largest primary merchant acquirers at the national level are Royal Bank of Canada, Bank of Montreal, CIBC and TD. The combined market share for Royal Bank of Canada and Bank of Montreal for primary merchant acquiring exceeds the 35% threshold on a national level.

COMPETITIVE CRITERIA

Barriers to Entry

There are significant barriers to entry, particularly in providing primary acquiring services to SME merchants.

The Banks have a strong advantage in an established brand name and the use of an extensive national branch network to facilitate referrals and/or service to clients. The majority of SME merchants still prefer to purchase their primary acquiring services from their main financial institution. This places non-banks at a disadvantage and may deter entry into this market.

The Banks contend that non-banks, particularly third-party processors that are able to leverage scale from their U.S. operations, are poised to enter the Canadian marketplace as primary acquirers. Since these firms are not members of the associations in Canada, they do not by themselves have direct access to the credit card networks. As a result, they would need to ally themselves with an existing Visa or MasterCard acquiring member in order to provide the full primary acquiring package. Although there is evidence that these processors are operating in Canada as providers of terminal services, in partnership with some Visa and MasterCard acquirers, they appear to be targeting large merchants who are able to purchase their terminal services separately. They are not generally servicing SME merchants.

The Bureau also understands that economies of scale in transaction processing may present a barrier for smaller Canadian banks entering or seeking to expand their primary merchant acquiring business, although the precise nature of these economies of scale has not been determined. While economies of scale may present difficulties for smaller Canadian institutions, they would not be a significant barrier for U.S. acquirers entering the Canadian market to the extent that they have leverage from their existing U.S. transaction volumes.

The Bureau recognizes that entry by a large third-party processor allied with an existing Visa or MasterCard member could significantly change the competitive dynamic of this market. However, it does not appear likely that this will occur within the two-year time frame of our analysis.

Removal of an Effective Competitor

The proposed merger removes an important competitor in the primary acquiring market, particularly for SME merchants. The Royal Bank of Canada and Bank of Montreal are the two largest primary acquirers in Canada. They have been effective competitors and customers have benefited by the competition between them.

Effective Competition Remaining

The Canadian Imperial Bank of Commerce, Toronto-Dominion Bank and Bank of Nova Scotia have been effective competitors with the Royal Bank of Canada and Bank of Montreal in the primary acquiring market for SME merchants. The National Bank and Caisses Desjardins represent significant competition in Quebec.

Despite the number of remaining competitors in this market, the Banks' claims that economies of scale are important in this market suggest that smaller competitors are at a cost disadvantage. This may limit their effectiveness post-merger.

It is likely that, if both proposed mergers were completed, the primary merchant acquiring market would be dominated by the two merged firms in most areas in Canada outside of Quebec.

CONCLUSIONS

The proposed merger:

- **will not result in a substantial lessening of competition in the *MasterCard* merchant acquiring market (the business of providing settlement of MasterCard credit card transactions to merchants) if the Royal Bank of Canada converts to MasterCard;**

- **may result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring (the business of providing both terminals and settlement of credit card transactions to merchants) for SME merchants.**

  ***Primary* merchant acquiring is problematic and requires further detailed review at the local or regional level before we can confirm if a substantial lessening of competition will result.**

- **will result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring for SME merchants should both mergers proceed.**

C. SECURITIES

PRODUCT MARKETS

Within this category of services we defined the following product markets:

Discount brokerage (execution of trades without advice)
Debt underwriting
Mergers and acquisitions advice
Institutional equity trading
Institutional debt trading
Full-service brokerage (execution of trades with advice)
Equity underwriting

We have concluded that the proposed merger does not raise competition concerns in the discount brokerage (execution of trades without advice), debt underwriting, mergers and acquisitions advice, institutional equity trading and institutional debt trading markets. These conclusions were reached because there are sufficient competitive alternatives remaining post-merger or the applicable thresholds were not exceeded. A detailed review was required for the remaining product markets.

Full-service Brokerage

Full-service brokers are distinct from discount brokers because they provide advice.

Discount brokers cater to essentially "do-it-yourself" customers who do their own research or buy third-party research. They do not receive advice tailored to their individual needs. Consequently, the cost of full-service brokerage services is significantly different from the cost of discount brokerage. For example, the Banks have indicated that a typical $450 trade with a full-service broker would cost $85 through a discount brokerage and $30 through an electronic discount broker.

These significant price differentials, combined with evidence that discount pricing does not discipline full-service pricing, indicate that full-service and discount brokerage services should be treated separately.

GEOGRAPHIC MARKET

The evidence indicates that the full-service brokerage business is local in scope. Most clients want local investment advice and a conveniently located office, close to where they live or work. This is demonstrated by the fact that both Nesbitt Burns, owned by Bank of Montreal and RBC Dominion Securities, owned by the Royal Bank of Canada, have set up branch offices throughout Canada.

Market Shares and Concentration Levels

In order to determine the market position of the parties, the Bureau gathered first-hand information on assets under administration from the full-service brokers in each local market. This measure is used in the industry to measure market shares. The alternative measure proposed recently, equity trading commissions, is readily available only on a provincial basis. It does not provide information on income derived from debt products or other sources. Accordingly, the Bureau has used the local market share data which is currently available.

In 55 of the 63 markets in which the two firms compete, the merging parties have a combined market share of 35% or greater.

Competitive Criteria

Barriers to Entry

Barriers to entry and expansion into the full-service brokerage market are high. Building a base of trained investment advisers is both costly and time-consuming. Based on estimates from third parties, it costs between $300 000 and $800 000 to develop a successful investment adviser.

Integrated firms, such as Nesbitt Burns and RBC Dominion Securities, that offer full-service brokerage as well as equity underwriting and institutional trading, have a number of advantages over smaller unintegrated firms.

Reliable research is a key component of the advice given by the investment adviser. Research is also a necessary input into underwriting services and institutional trading. Integrated firms can more easily support the costs of research across three business lines – individual client services, underwriting services and institutional trading – than across just one line. Underwriting services also provide a competitive advantage in that clients of the integrated firm will have greater access to new issues of securities than clients of unintegrated firms. Bank-owned dealers have the additional advantage of obtaining a significant proportion of their business from referrals of bank branch customers.

Even with these advantages, growth in the full-service business has largely been accomplished by acquisitions, rather than internal growth. The recent acquisition of Midland Walwyn by Merrill Lynch is a case in point.

Removal of a Vigorous and Effective Competitor

The first- and second-largest full-service brokers would be combined in many local markets. Nesbitt Burns and RBC Dominion Securities would have almost 3,000 investment advisers compared with approximately 700 for Wood Gundy, 800 for Scotia McLeod, 1,350 for Merrill Lynch, and 425 for Toronto-Dominion.

The proposed merger clearly removes an effective and vigorous competitor from the markets where the firms currently compete. RBC Dominion Securities and Nesbitt Burns are fully integrated firms with established reputations for effective research and advisory capabilities, and customers have benefited from the competition between them.

Effective Competition Remaining

Wood Gundy, Merrill Lynch and Scotia McLeod provide effective competition in many local markets across Canada. However, on a national basis, the merged firm will be larger than the combination of these three firms on the basis of both assets under administration or the number of investment advisers employed.

With approximately 1,300 investment advisers, Lévesque Beaubien Geoffrion is an effective competitor, particularly in the province of Quebec. In a number of local markets, full-service firms also compete with smaller full-service brokerages.

While its recent acquisition by Merrill Lynch may make Midland Walwyn a more effective competitor given the resources of Merrill Lynch, this competition will likely be insufficient to replace the lessening of competition resulting from the removal of either Nesbitt Burns or RBC Dominion Securities.

CONCLUSIONS

The proposed merger :

- **will result in a substantial lessening of competition in 39 markets of the 63 local markets in which Nesbitt Burns and RBC Dominion Securities compete in full-service brokerage;**

- **may result in a substantial lessening of competition in 16 markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**

- **will not result in a substantial lessening of competition in 8 markets.**

These conclusions are based in part on the market share levels as measured by assets under administration in local markets. The Bureau would be prepared to review these conclusions, if information having a material impact becomes available at the local level which would indicate that the market shares, as calculated, significantly overstate the market position of the Bank-owned firms.

Appendix E identifies the markets that fall into each category.

Equity Underwriting

Equity underwriting refers to the practice whereby the securities dealer assumes the risk of buying a new issue of securities from the issuing corporation or government entity and then resells it to the public through full-service brokers or to institutional investors. In order to spread risk and ensure effective distribution, underwriting typically involves groups or syndicates.

Underwriters compete with one another to be the lead underwriter of the syndicate. Lead underwriters will work with the issuer in a number of areas, including the pricing of the issue and selection of other underwriters to be invited into the syndicate. To reflect these greater responsibilities, the lead underwriter typically earns a higher share of the fee revenues. The lead underwriter also derives benefits in other areas. It is better positioned for future mergers and acquisition advisory work, and its overall profile within the industry is enhanced.

The underwriting business has many participants across a broad range of underwriting activity, from small or niche issues with market capitalization as low as $5 million to large corporate issues exceeding $500 million in market value. The focus of the major underwriters, such as RBC Dominion Securities and Nesbitt Burns has been on issues above $50 million in market value. Many of the small or niche underwriters do not have the capabilities or capital to lead or participate in the larger deal range exceeding $50 million. Two notable exceptions have been Griffiths McBurney and Newcrest Capital, which have taken lead positions in some deals of more than $100 million.

GEOGRAPHIC MARKET

The market for equity underwriting is national.

MARKET SHARES AND CONCENTRATION LEVELS

Participants in the market use proxies for measuring market share based on underwriting liability, combined with various weighting schemes to reflect the greater compensation earned by the lead underwriter. The merging parties have a market share greater than 35%, when the method that allocates the full credit to the lead

underwriter is used. This calculation is based on all deals with a market value of $50 million or greater, in the period from 1995 to 1998.

COMPETITIVE CRITERIA

Barriers to Entry

The barriers to entry are high. It takes considerable time to build the expertise and reputation necessary to compete successfully as a lead underwriter in this market.

Fully integrated firms are best able to benefit from the economies of scope available in the industry. The ability to win lead positions is enhanced when one is active in the trading of securities in the institutional market. This requires top-ranked research capabilities across a full range of industry sectors. Knowledge of the secondary market allows the underwriter to more easily place new issues with appropriate institutional buyers. Institutional distribution capacity is consistently the top-ranked factor in choosing a lead underwriter, followed by equity research capability.

Another important factor is retail distribution, which provides the underwriter with an important alternative distribution channel should the institutional market decide not to support the issue. Retail distribution can account for up to 30% of a large deal. The parties have argued that smaller firms without retail distribution can "rent" retail distribution. Interviews with third parties indicate that the opportunity to rent distribution is limited where the firms that have a large network of retail brokers are the same firms seeking the lead positions.

Foreign Competition

For the majority of Canadian companies, seeking equity financing through underwriters in a foreign jurisdiction is not a competitive alternative. Canadian issues are generally smaller and tend to have difficulty attracting investor and research analyst interest in the United States. In addition, Canadian placement is more attractive because many Canadian institutional investors are required to hold a significant portion of their portfolio in Canadian securities.

Removal of a Vigorous and Effective Competitor

The proposed merger would combine two of the three largest underwriters in this market. The records produced by the Banks clearly show that each firm considers the other to be its most important competitor, based on the range of client relationships, industry coverage, quality of research and distribution capabilities of both firms. A number of corporations also expressed significant concern that the proposed merger would remove an important competitive alternative.

Effective Competition Remaining

There are other significant competitors remaining, including CIBC Wood Gundy, Scotia McLeod and Merrill Lynch. The re-entry of Merrill Lynch into Canada through its recent acquisition of Midland Walwyn brings together a large retail brokerage with the resources of the largest underwriter in the United States. This firm is likely to become a more effective competitor in the Canadian market.

Other Factors

The Banks contend that, if previous mergers in the industry are any indication, corporate issuers will spread the business to other dealers to maintain effective alternatives among the top four or five firms. This, the Banks believe, will lead to staff attrition and significantly reduce the size of the merged firm, thereby alleviating any concerns that might otherwise arise.

Previous transactions, however, did not result in a merged firm the size of a combined RBC Dominion Securities and Nesbitt Burns. Consequently, we cannot assume that there will be a comparable attrition rate resulting from this transaction as the merging Banks contend. Alternatively, attrition from the merged firm is unlikely to result in replacing a competitor the size of RBC Dominion Securities or Nesbitt Burns.

Moreover, by combining the two leading underwriters that will have the largest retail distribution capability, it is likely that corporations will have to include the firm in any large underwriting where such distribution is important.

During the course of the Bureau's review, concerns were also raised about pressure placed on companies to use the underwriter owned by their primary banker, the ability to discipline smaller underwriters, and the fact that the underwriting commission level has held steady at a minimum of 4% for the great majority of deals for many years.

This suggests that the economic influence the larger firms are capable of exerting is not necessarily captured by market shares of individual firms. The industry is such that market power may occur at lower market share and concentration levels than would normally be of concern to the Bureau. In addition, although certain forms of cooperation are both necessary and legitimate in this industry, concerns about the ability of such a large firm to act independently of the market are enhanced. The interdependent nature of this industry compounds this concern. In particular, it may be difficult for issuers to exclude such a large firm from underwriting syndicates.

CONCLUSION

The proposed merger:

- **may result in a substantial lessening of competition in the national market for the underwriting of equity issues exceeding $50 million; this market is problematic and requires further detailed review before we can confirm if a substantial lessening of competition will result.**

EFFICIENCY CLAIMS

As the Guidelines state, the onus of demonstrating efficiencies rests with the Banks. The Royal Bank of Canada and Bank of Montreal claim that cost savings will result if they are permitted to merge. The Banks estimate they will save approximately $1 billion annually by eliminating duplication in the branch network, technology spending, and overhead and administration.

While it is difficult to quantify efficiencies pre-merger, it seems reasonable that the proposed merger would produce cost savings. A variety of studies and consultants' reports reviewed by the Bureau identify three general areas in which a bank merger can be the source of cost savings.

Efficiency gains from a bank merger may arise through greater scale economies or rationalization in banking operations. This may be done by consolidating payment services, deposit inquiries and accounting, and loan-monitoring operations. Further gains may be realized through the expansion of the range of banking products. Adding new products to existing lines of business can allow for economies of scope rather than providing products individually. By adopting each other's best practices, banks can realize further important efficiencies.

However, the same studies also indicate that these potential efficiencies may not be realized in all mergers.

U.S. research of mergers between large banks indicates that the cost savings expected by the Royal Bank of Canada and the Bank of Montreal are consistent with those realized only after successful integration. The studies show that successful integration is more likely to occur if merging banks have previously participated in a large merger. Both the Royal Bank of Canada and Bank of Montreal have had experience in smaller acquisitions. Yet neither has merged with an organization of comparable size. This adds to the difficulty of assessing the likelihood of the merger successfully generating the expected efficiencies.

Research also indicates that about one-half of large bank mergers reduce costs, while one-half realize no change in costs, or even incur increased costs. Thus, it is unclear the extent to which the claimed efficiencies will be realized.

When it is likely that the efficiencies would outweigh the anti-competitive impact of a merger, the *Competition Act* provides an exception to allow the merger to proceed. As outlined in the Guidelines, it has been the Bureau's policy that, in non-bank cases where there is a likelihood of a substantial lessening or prevention of competition, as

there is in this case, and the parties to the merger are claiming efficiency gains, the case would be brought to the Competition Tribunal for resolution.

However, in this case, efficiency gains arising from the merger, to a large extent, will be shaped by the public interest concerns to be expressed by the Minister of Finance. Given these circumstances, the Banks will not be able to accurately project the magnitude of the efficiencies until such time as they hear from the Minister of Finance.

THE TASK FORCE ON THE FUTURE OF THE CANADIAN FINANCIAL SERVICES SECTOR

The Bureau stated in its Guidelines that in reviewing the proposed bank mergers it would consider the impact on the regulatory environment of recommendations made by the Task Force. Enhancing competition in the financial services sector is a major focus of the Task Force report, released on September 15, 1998.

The Bureau welcomes the Task Force's emphasis on increased competition and views its recommendations aimed at enhancing competition as a positive step.

Among the various measures proposed by the Task Force to enhance competition, those relating to ownership structure, enhancing the capacity of the co-operative sector, and access to the payments system have the potential for the greatest impact on the marketplace.

Overall, even if a decision to adopt all the pro-competitive recommendations made by the Task Force were made immediately, the decision would be unlikely to have a substantial impact on competition in the markets of concern within the two-year time frame used in the Bureau's merger analysis. Making the legislative changes needed to implement regulatory reforms will take some time and there would likely be some delay before market participants would respond.

Since the impact of the Task Force's recommendations is more likely to be felt beyond the Bureau's two-year time frame, the proposed mergers were assessed in the context of the existing regulatory framework. As noted above, economic barriers affecting the state of competition in the relevant markets are significant. As a result, even if the regulatory environment envisioned by the Task Force were implemented today, the Bureau's assessment of the proposed mergers would likely reach the same conclusions.

The Task Force report also commented on the analytical framework used by the Bureau in reviewing mergers in the financial services sector. While supporting the approach outlined in the Guidelines, the Task Force suggests that the Bureau give particular attention to a number of factors relating to market definition and the impact of a bank merger within certain markets.

Specifically, the Task Force recommended that the Bureau pay particular attention to the following:

- the competition concerns of small and medium-sized business,
- users of personal financial services who may still be branch-dependent, and

- the new competitive choices that already exist in respect of certain product lines and that are also likely to emerge as a result of new distribution channels and the liberalization of public policy constraints.

In assessing the proposed mergers, the Bureau considered each of these factors carefully. The impact of technology on the delivery of financial services, particularly the emergence of new distribution channels, is a prominent theme in the Task Force report. We agree, and have highlighted how the Bureau considered technology in its assessment of the proposed mergers.

POTENTIAL REMEDIES

Following the process outlined in the Guidelines, it is not practical to consider possible remedies until the Banks have heard the public interest concerns of the Minister of Finance. However, it is useful to highlight the process that has typically been followed by the Bureau, the principles it sees as important in pursuing any remedies, and the types of remedies that have been applied to competition concerns in other cases.

After being informed of the competition concerns by the Bureau, the onus then lies with the Banks to determine whether or not they wish to proceed with the proposal, and if so, to identify and present remedies that remove these concerns. To be effective, a remedy must embody the following principles:

- The substantial lessening of competition must be removed in all affected markets.

- It must permit sustained and effective competition so that consumers will continue to enjoy the benefits of competition.

- It must be implemented on a timely basis. For instance, assets should be sold prior to the completion of the merger, or within a specified time thereafter. Failure to comply would result in assets being placed in the hands of a trustee for sale.

- The necessity for ongoing regulatory oversight should be limited.

- Implementation of the remedy must be enforceable and transparent.

Traditionally, the above principles have been satisfied through remedies that focussed on structural rather than behavioural measures. Assuming the Banks decide that it is appropriate to proceed further, the most effective structural remedy is the divestiture of assets away from the merged company to others that will provide effective and sustainable competition. There is no formula for identifying in advance which assets may satisfy such conditions. Rather, to the extent that such a remedy is possible, it is case-specific and dependent upon the nature and extent of the competition concerns identified.

With regard to remedies pursued in other countries, concerns similar to those identified in the current proposal about branch banking have been resolved through branch divestitures. Such remedies have generally been considered to be effective in the United States. However, whether or not such a remedy would be either practical or sufficient to address the concerns identified in this letter remains to be determined.

The viability of such a remedy also depends on the financial strength of the purchaser and its ability to support branch banking operations.

The divestiture of brand names has often been a consideration in other mergers and may be highly appropriate for bank mergers. Acquiring a recognized brand may assist the purchaser in establishing a strong market presence more quickly.

It should also be noted that the market share threshold to which divestiture would be required may well depend on whether or not the proposed CIBC-TD transaction proceeds. If it proceeds, a lower market share threshold may be required because of the increased concentration that would occur by both mergers occurring simultaneously.

With respect to credit cards, the migration of the Bank of Montreal away from MasterCard would result in a substantial lessening of competition. By implication, this means that the Royal Bank of Canada would have to convert its Visa portfolio to MasterCard, if the merger is allowed.

Branch bank divestitures, which might have an impact on the primary merchant acquiring market, would have to be examined from that perspective. As well, the constitution of MasterCard would have to ensure that no single member could dominate MasterCard Canada Inc.

As the foregoing indicates, the proposed transaction raises serious competition issues. The Bureau has given consideration to each of these issues and has attempted to explain the basis for its conclusions as fully as possible, while taking into account the importance of the proposed merger and respecting the confidentiality provisions in the *Competition Act*.

As stated in the Guidelines, if after receipt of this letter and taking into account any concerns expressed by the Minister of Finance, the Banks decide it is appropriate to explore potential remedies with the Bureau, we would be pleased to do so at your convenience.

Yours sincerely,

Konrad von Finckenstein, Q.C.

Appendix A

Glossary

Assets under administration
Assets administered or managed by a financial institution which are beneficially owned by clients or investors.

Barriers to entry
Anything that makes effective entry into a market within two years less likely or more difficult. To be effective, entry must be of a sufficient scale to ensure that any material price increase or any reduction in service reverts to competitive levels. Entry barriers could include:

- switching costs incurred by customers,
- sunk costs incurred by an entrant,
- tariff and non-tariff barriers to international trade, and
- regulatory control over entry.

Census Agglomeration (CA)
An urban area of more than 10,000 persons with a high degree of social and economic integration.

Census Metropolitan Area (CMA)
A large urban area of more than 100,000 persons that has a high degree of social and economic integration.

Concentration ratio or four firm concentration ratio (CR4)
The share of the market accounted for by the four largest firms in the market, usually in terms of the percentage of sales.

Credit card acquiring
The services provided by credit card acquirers to merchants that enable merchants to accept credit card payment from their customers and to receive payment for credit card purchases. Financial institutions providing only the processing and payment settlements of credit card purchases are referred to as Visa or MasterCard Merchant Acquirers. Financial institutions that also provide the computer terminal and software along with the processing and payment settlements services are referred to as Primary Merchant Acquirers.

Credit card issuing
The provision of the plastic credit card to consumers. A credit card issuer typically refers to a financial institution that issues a card which can be used by a consumer to purchase goods or services on credit.

Credit card network services
The system that enables individual cardholders to have their cards widely accepted for the purchase of goods and services. The two major credit card networks in Canada are Visa and MasterCard.

Discount Brokerage
The execution of securities trades without advice. The discount broker buys and sells stock. Clients perform their own research or buy third party research, and therefore pay much less to execute trades.

Economies of scope
Savings from producing two or more products or services together rather than separately.

Economies of scale
Savings that arise when the average or unit cost of producing a product or service decreases as the volume produced increases.

Efficiency gains
Cost savings to the economy. These cost savings must represent real savings in economic resources, rather than private gains to the merging parties that result, for example, from an increase in bargaining power with suppliers. Efficiency gains fall into two broad classes: production efficiencies and dynamic efficiencies. Production efficiencies result from real long run savings in resources which permit firms to produce more output or better quality output from the same amount of input. Dynamic efficiencies include gains attained through the optimal introduction of new products, the development of more efficient productive processes, and the improvement of product quality and service.

Full Service Brokerage
The execution of securities trades bundled with advice custom tailored to the clients portfolio.

Interchange fee
A charge set by a credit card association that is paid to the issuer of a credit card by the merchant's credit card acquirer. The interchange fee is a component of the merchant discount rate (MDR) that is levied on the merchant for the processing and settlement of credit card transactions.

Interdependent behaviour
Explicit or implicit understandings among firms in the market to jointly exercise market power or limit competition on price, quality, service, or any other dimension. Interdependent behaviour refers to conduct by a group of firms that is profitable for each of them only because of the accommodating co-operative conduct of the others. Such behaviour is more likely in markets in which firms can recognize and reach a co-operative understanding, monitor one another's behaviour, and respond to any deviations from the co-operating behaviour by others. By reducing the number of competitors in a market, a merger can facilitate interdependent behaviour among firms, including those that are not party to the merger.

Investment adviser
An individual whose principal task is giving professional advice on investments and management of assets.

Large corporate businesses
Businesses with borrowing requirements in excess of $15 million. These firms generally have access to international equity and credit markets.

Line of credit
Commitment by a financial intermediary to lend up to a specified amount to a customer on request.

Market power
The ability of firms to profitably influence price, quality, variety, service, advertising, innovation or other dimensions of competition.

Merchant Discount Rate (MDR)
A fee levied on a merchant by a financial institution for the processing and settlement of credit card transactions. This fee, known as the merchant discount rate, is applied to the dollar volume of credit card purchases and is deducted from the merchant's transaction account.

Mid-market enterprises
Businesses with borrowing requirements in the $1 million to $15 million range. They are divided into two segments:

- $1 million to $5 million
- $5 million to $15 million.

Money market mutual funds
A fund that issues and buys back units or shares representing pro-rata ownership of a managed portfolio of short-term assets, usually less than one year. These assets are highly liquid.

Operating loans
Short term business credit or loans to businesses for working capital purposes.

Payments system
The Canadian payments system consists of a set of separate networks that include the cheque payments system, the credit card systems of Visa and MasterCard, the automatic banking machine (ABM) and debit card networks of Interac, and the separate clearing systems for debt and equities, and for mutual funds. At the centre of the system is the Canadian Payments Association (CPA), which has the mandate under the *Canadian Payments Association Act* (the *CPA Act*) to operate a national clearing and settlement system. Members use this system to settle claims arising from their customers' cheque payments and receipts, and to discharge their net claims from transactions in the other networks.

Personal loans
Loans generally obtained by consumers in small amounts and for non-business purposes. Examples include home improvement loans and loans to finance the purchase of consumer goods and services.

Personal short term savings
Savings which include guaranteed investment certificates, money market mutual funds, Canada and provincial savings bonds, and treasury bills.

Relevant market
The relevant or 'antitrust' market is the product area over which a firm could exercise market power. Technically, it is defined to include the smallest group of products and the smallest geographic area. If this product grouping were provided by a sole supplier, the supplier could profitably maintain a small but significant, non-transitory price increase. In this context, 'significant', usually means five percent, and 'non-transitory' means a price increase lasting at least one year.

Residential mortgages
A loan to buy a real estate property, typically a home, secured by the value of the property. It is the principal type of long term personal debt, with terms ranging up to10 years and amortization typically in the 20 to 25-year range.

Retail banking
Banking services offered to the general public, including consumers, commercial enterprises, and small and medium-sized enterprises. Banking associated mainly with personal banking services and small-scale operations.

Rural market
Bank branches, outside of urban areas, located within 20 kilometres of each other were considered to be within the same rural market.

Schedule I Banks
Banks subject to the ownership regime which, in the context of the current *Bank Act*, refers to the provision that no individual can acquire more than 10 percent of any class of shares in a federally incorporated financial institution without the approval of the Minister of Finance.

Schedule II Banks
The *Bank Act* classifies banks as Schedule I or Schedule II banks. Different ownership rules apply to each type of bank. Schedule II banks, which are permitted to be closely-held upon incorporation, are mostly subsidiaries of foreign banks and are restricted in size. Schedule II Banks with more than $750 million in shareholder's equity

are required to have 35% of their voting common shares widely held and publicly traded.

Security dealers
Firms which handle securities transactions, either for individual clients, institutional clients or on their own behalf. Other services which are often provided include research and advice on securities trading, merger and acquisition advice and underwriting services.

Small and medium sized enterprises (SMEs)
Businesses with borrowing authorizations of less than $1 million. They are divided into two segments:

- up to $200,000
- $200,000 to $1 million.

Substantial lessening or prevention of competition
The price of the relevant product is likely to be materially greater, or quality and service materially reduced, in a substantial part of the relevant market than it would be in the absence of the merger. This price, quality or service would not likely be eliminated within two years by new or increased competition from existing or new competitors.

Sunk costs
The component of the purchase price of the a highly specialized asset, that is irrecoverable.

Switching costs
Costs which discourage consumers from switching to competing suppliers. An entrant must compensate consumers for their costs of switching by offering them higher quality or lower price.

Syndicate
A group of financial intermediaries that act jointly on a temporary basis to make loans or to underwrite a new issue of securities.

Ten percent (10%) rule
Ownership regime which, in the context of the *Bank Act* refers to the provision that no individual can acquire more than 10 percent of any class of shares in a federally incorporated financial institution without the approval of the Minister of Finance.

Term loan
Loans, including non-residential mortgages, which are generally intermediate to longer term in nature, and are typically secured by collateral to purchase equipment, buildings, and real estate.

Third party processor
A non-bank that processes credit card transactions, including the provision of transaction verification for merchants and other information-based services.

Transaction accounts
Services which enable an account holder to make deposits and withdrawals through savings or chequing accounts on short notice either at the local branch or some other channel such as an ABM, debit card, telephone or computer, and to receive reports on those activities.

Underwriting
An undertaking from a securities dealer to assume the risk of buying a new issue of securities from the issuing company or government entity and to sell the securities to the public or to institutional investors.

Urban market
A geographic area that has been defined as a Census Agglomeration (CA) or Census Metropolitan Area (CMA) by Statistics Canada.

Appendix B

Criteria Used for Local Market Classification

To ensure that competition concerns in each local market in which the Banks compete are accurately identified, the Competition Bureau used the following approach.

Personal and business transaction accounts in each local market are the core of most banking relationships for consumers and businesses, consequently if the Banks' combined market share:

- of either the personal or business transaction accounts is 45% or more, the local geographic market falls in the category of *'Will result in a substantial lessening of competition'*.
- of either the personal or business transaction accounts is between 35% and 45%, or any of the following product categories – personal loans/lines of credit, residential mortgages, small- or medium-sized business operating loans – is 35% or greater, the local geographic market falls into the category of *'May result in a substantial lessening of competition'*.
- of either the personal or business transaction accounts, and any of the following product categories – personal loans/lines of credit, residential mortgages, small- or medium-sized business operating loans – is below 35%, the local geographic market falls into the category of *'Will not result in a substantial lessening of competition'*.

These rules have been adjusted to discount for very small changes in market share.

The detailed formula applied to each local market is set out below.

'Will result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is 45% or more, **and**
  - the market share being acquired as a result of the merger is 5% or more.

'May result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is 45% or more, **and**
  - the market share being acquired as a result of the merger is less than 5%

  OR

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is between 35% and 45%, **and**
  - the market share being acquired as a result of the merger is 5% or more

  OR

- the combined market share of the merging parties in
  - any one of the following: personal loans/lines of credit, residential mortgages, small- and medium-sized business operating loans are 35% or greater, **and**
  - the market share being acquired as a result of the merger is 5% or more.

'Will not result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the parties is below 35% in any product market

  OR

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is between 35 and 45%, **and**
  - the market share being acquired as a result of the merger is less than 5%

  OR

- the combined market share of the merging parties in
  - any of the following: personal loans/lines of credit, residential mortgages, small- and medium-sized business operating loans are 35% or greater **and**
  - the market share being acquired as a result of the merger is less than 5%.

Note:

These rules were followed in every case except Toronto for the proposed Royal Bank of Canada/Bank of Montreal merger. The rule initially placed the Toronto CMA in the 'will result in a substantial lessening of competition' category for that proposed merger because the business transaction account data indicated a market share exceeding 45%. However, due to the large number of corporate accounts booked in Toronto, the high market share may be somewhat overstated for SME firms. As a result, the Toronto CMA market requires further review.

Appendix C

Royal Bank and Bank of Montreal - Overlap Markets

This appendix sets out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
NFLD			Corner Brook
NFLD			Gander
NFLD			Grand Falls
NFLD		St. John's	
NFLD			Stephenville (Rural)
PEI			Charlottetown
PEI		Summerside	
NS			Antigonish (Rural)
NS			Bridgewater (Rural)
NS			Cape Breton
NS			Halifax
NS			Kentville
NS			Liverpool (Rural)
NS		New Glasgow	
NS			Port Hawkesbury (Rural)
NS		Truro	
NS			Yarmouth (Rural)
NB		Bathurst	
NB			Dalhousie (Rural)
NB	Edmundston		
NB		Fredericton	
NB			Grand Falls (Grand-Sault) (Rural)
NB			Miramichi (Rural)
NB		Moncton	
NB			Saint John
NB			St. Stephen (Rural)
NB			Studholm (Rural)
PQ		Alma	
PQ	Baie-Comeau		

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
PQ	Chicoutimi		
PQ			Cowansville
PQ		Dolbeau	
PQ	Drummondville		
PQ	Granby		
PQ	Joliette		
PQ		Montréal	
PQ	Québec		
PQ		Rimouski	
PQ		Rouyn-Noranda	
PQ	Sainte-Agathe-des-Monts (Rural)		
PQ		Saint-Georges	
PQ	Saint-Hyacinth		
PQ	Saint-Jean-sur-Richelieu		
PQ	Salaberry-de-Valleyfield		
PQ			Sept-Iles
PQ	Shawinigan		
PQ			Shawville (Rural)
PQ	Sherbrooke		
PQ	Sorel		
PQ	Thetford Mines		
PQ	Trois-Rivières		
PQ	Victoriaville		
ONT			Alexandria (Rural)
ONT			Almonte (Rural)
ONT		Amherstburg (Rural)	
ONT			Aylmer (Rural)
ONT		Barrie	
ONT		Belleville	

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
ONT			Blenheim (Rural)
ONT	Bracebridge (Rural)		
ONT		Brantford	
ONT			Brockville
ONT			Campbellford (Rural)
ONT			Chapleau (Rural)
ONT		Chatham	
ONT	Cobourg		
ONT	Collingwood		
ONT			Cornwall
ONT			Dryden (Rural)
ONT			Dunnville (Rural)
ONT			Elliot Lake
ONT			Exeter (Rural)
ONT			Fergus (Rural)
ONT		Forest (Rural)	
ONT		Goderich (Rural)	
ONT			Guelph
ONT		Hamilton	
ONT			Hanover (Rural)
ONT		Hawkesbury	
ONT		Huntsville (Rural)	
ONT			Ingersoll (Rural)
ONT			Kincardine (Rural)
ONT		Kingston	
ONT		Kitchener	
ONT			Leamington
ONT	Lindsay		
ONT	Listowel (Rural)		
ONT		London	

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
ONT	Midland		
ONT			Morrisburg (Rural)
ONT			Mount Forest (Rural)
ONT			Nanticoke (Rural)
ONT			Napanee (Rural)
ONT	New Hamburg (Rural)		
ONT		North Bay	
ONT		Norwich (Rural)	
ONT			Ohsweken (Rural)
ONT	Orillia		
ONT		Oshawa	
ONT		Ottawa - Hull	
ONT		Owen Sound	
ONT			Pembroke
ONT			Perth (Rural)
ONT		Peterborough	
ONT	Port Elgin (Rural)		
ONT			Port Perry (Rural)
ONT			Prescott (Rural)
ONT			Renfrew (Rural)
ONT		Sarnia	
ONT			Sault Ste. Marie
ONT			Seaforth (Rural)
ONT			Simcoe
ONT		Smiths Falls	
ONT		St. Catharines	
ONT			St. Marys (Rural)
ONT			Stratford
ONT			Strathroy
ONT		Sudbury	

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
ONT			Thunder Bay
ONT			Tilbury (Rural)
ONT		Tillsonburg	
ONT	Timmins		
ONT		Toronto	
ONT			Wawa (Rural)
ONT			West Lorne (Rural)
ONT			Westport (Rural)
ONT			Winchester (Rural)
ONT		Windsor	
ONT			Woodstock
MAN			Brandon
MAN		Dauphin (Rural)	
MAN			Lac du Bonnet (Rural)
MAN		Morden (Rural)	
MAN			Neepawa (Rural)
MAN		Portage la Prarie	
MAN			Selkirk (Rural)
MAN		Swan River (Rural)	
MAN			The Pas (Rural)
MAN		Thompson	
MAN			Whitewater (Rural)
MAN			Winnipeg
SASK	Assiniboia (Rural)		
SASK	Davidson (Rural)		
SASK	Esterhazy (Rural)		
SASK	Estevan		
SASK	Humboldt (Rural)		
SASK	Kelliher (Rural)		
SASK	Kindersley (Rural)		

Appendix C

Royal Bank and Bank of Montreal - Overlap Markets

This appendix sets out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
SASK			Melville (Rural)
SASK		Moose Jaw	
SASK	Nipawin (Rural)		
SASK	North Battleford		
SASK	Outlook (Rural)		
SASK	Prince Albert		
SASK		Regina	
SASK	Saskatoon		
SASK	Swift Current		
SASK	Tisdale (Rural)		
SASK	Weyburn (Rural)		
SASK		Yorkton	
ALTA	Brooks (Rural)		
ALTA		Calgary	
ALTA			Camrose
ALTA			Canmore (Rural)
ALTA	Consort (Rural)		
ALTA			Drayton Valley (Rural)
ALTA		Drumheller (Rural)	
ALTA		Edmonton	
ALTA		Grande Prairie	
ALTA			Hanna (Rural)
ALTA		High River (Rural)	
ALTA		Lacombe (Rural)	
ALTA		Lethbridge	
ALTA	Lloydminster		
ALTA		Medicine Hat	
ALTA			Olds (Rural)
ALTA		Ponoka (Rural)	
ALTA	Red Deer		

Appendix C

Royal Bank and Bank of Montreal - Overlap Markets

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
ALTA	Taber (Rural)		
ALTA		Three Hills (Rural)	
ALTA		Wainwright (Rural)	
ALTA			Westlock (Rural)
ALTA		Wetaskiwin	
ALTA		Whitecourt (Rural)	
ALTA		Wood Buffalo	
BC	Abbotsford		
BC			Ashcroft (Rural)
BC		Campbell River	
BC	Chilliwack		
BC		Courtenay	
BC			Cranbrook
BC			Creston (Rural)
BC		Dawson Creek	
BC			Duncan
BC			Fort St. John
BC			Gibsons (Rural)
BC		Kamloops	
BC			Kelowna
BC			Kimberley (Rural)
BC			Kitimat
BC			Ladysmith (Rural)
BC			Merritt (Rural)
BC			Nanaimo
BC			Nelson (Rural)
BC		Osoyoos (Rural)	
BC			Parksville (Rural)
BC		Penticton	
BC			Port Alberni

Appendix C

Royal Bank and Bank of Montreal - Overlap Markets

This appendix sets out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	49 Geographic Markets with 198 Royal Bank and Bank of Montreal Branches	71 Geographic Markets with 1698 Royal Bank and Bank of Montreal Branches	104 Geographic Markets with 480 Royal Bank and Bank of Montreal Branches
BC			Powell River
BC			Prince George
BC			Prince Rupert
BC			Quesnel
BC		Salmon Arm (Rural)	
BC			Smithers (Rural)
BC			Squamish (Rural)
BC			Summerland (Rural)
BC			Terrace
BC		Vancouver	
BC			Vernon
BC		Victoria	
BC			Williams Lake
YT			Whitehorse
NWT			Iqaluit (Rural)
NWT		Yellowknife	

Appendix D

Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	Names of Rural Geographic Markets	Branch Locations
Newfoundland	Stephenville	STEPHENVILLE
		STEPHENVILLE CROSSING
Nova Scotia	Amherst	AMHERST
	Antigonish	ANTIGONISH
		CANSO
		HAVRE BOUCHER
	Bridgewater	BRIDGEWATER
		LUNENBURG
		MAHONE BAY
		NEW GERMANY
	Liverpool	BROOKLYN
		LIVERPOOL
	Port Hawkesbury	PORT HAWKESBURY
		RICHMOND
	Yarmouth	LOWER EAST PUBNICO
		TUSKET
		WEDGEPORT
		YARMOUTH
New Brunswick	Dalhousie	CAMPBELLTON
		CHARLO
		DALHOUSIE
		DUNDEE
		EEL RIVER CROSSING
	Grand Falls (Grand-Sault)	GRAND FALLS
		GRAND SAULT
		ST-LEONARD
	Miramichi	CHATHAM
		CURTIS PARK
		MIRAMICHI
		NEWCASTLE
	St. Stephen	ST. STEPHEN
	Studholm	NORTON
		SUSSEX
Quebec	Sainte-Agathe-des-Monts	MONT-ROLLAND (PREVOST)
		SAINTE-ADELE

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Province	Names of Rural Geographic Markets	Branch Locations
		SAINTE-AGATHE-DES-MONTS
		STE-MARGUERITE-DU-LAC-MASSON
		ST-FAUSTIN
		ST-SAUVEUR-DES-MONTS
		VAL DAVID
	Shawville	CAMPBELLS BAY
		SHAWVILLE
Ontario	Alexandria	ALEXANDRIA
		LANCASTER
		MAXVILLE
	Almonte	ALMONTE
		CARLETON PLACE
	Amherstburg	AMHERSTBURG
		HARROW
	Arnprior	ARNPRIOR
	Atikokan	ATIKOKAN
	Aylmer	AYLMER
	Beaverton	BEAVERTON
		CANNINGTON
		PEFFERLAW
		SUNDERLAND
	Blenheim	BLENHEIM
		HIGHGATE
		RIDGETOWN
	Bracebridge	BRACEBRIDGE
		GRAVENHURST
	Campbellford	CAMPBELLFORD
		HASTINGS
		NORWOOD
		WARKWORTH
	Chapleau	CHAPLEAU
		ESPANOLA
	Creemore	ANGUS
		CREEMORE
		DUNDALK

Appendix D

Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	Names of Rural Geographic Markets	Branch Locations
		SHELBURNE
		STAYNER
	Dover	DRESDEN
	Dryden	DRYDEN
	Dunnville	DUNNVILLE
	Exeter	AILSA CRAIG
		EXETER
		HENSALL
		SEBRINGVILLE
		ZURICH
	Fergus	ELORA
		FERGUS
	Forest	ARKONA
		FOREST
		WATFORD
	Fort Frances	FORT FRANCES
	Gananoque	GANANOQUE
		LANSDOWNE
	Goderich	GODERICH
	Hanover	AYTON
		CLIFFORD
		ELMWOOD
		HANOVER
		WALKERTON
	Huntsville	HUNTSVILLE
	Ingersoll	BEACHVILLE
		INGERSOLL
	Kincardine	KINCARDINE
		RIPLEY
	Kirkland Lake	ENGLEHART
		KIRKLAND LAKE
	Listowel	ATWOOD
		LISTOWEL
		MILVERTON
		PALMERSTON

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Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	Names of Rural Geographic Markets	Branch Locations
	Markdale	CHATSWORTH
		FLESHERTON
		MARKDALE
	Minden	MINDEN
	Mitchell	MITCHELL
	Morrisburg	CARDINAL
		IROQUOIS
		MORRISBURG
		SPENCERVILLE
	Mount Forest	ARTHUR
		HARRISTON
		MOOREFIELD
		MOUNT FOREST
	Nanticoke	CAYUGA
		FISHERVILLE
		HAGERSVILLE
		JARVIS
		NANTICOKE
		PORT DOVER
		SCOTLAND
		WATERFORD
	Napanee	NAPANEE
	New Hamburg	DRUMBO
		LINWOOD
		NEW DUNDEE
		NEW HAMBURG
		PLATTSVILLE
		ST CLEMENTS
		TAVISTOCK
		WELLESLEY
	New Liskeard	NEW LISKEARD
	Norwich	DELHI
		NORWICH
		OTTERVILLE
	Ohsweken	OHSWEKEN

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Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	Names of Rural Geographic Markets	Branch Locations
	Parry Sound	PARRY SOUND
	Perth	PERTH
	Petrolia	PETROLIA
		WYOMING
	Picton	CONSECON
		PICTON
		WELLINGTON
	Port Elgin	PAISLEY
		PORT ELGIN
		SOUTHAMPTON
		TARA
	Port Perry	LITTLE BRITAIN
		PORT PERRY
	Prescott	PRESCOTT
	Renfrew	RENFREW
	Seaforth	CLINTON
		DUBLIN
		SEAFORTH
	St. Marys	EMBRO
		ST MARYS
		THAMESFORD
	Tilbury	MERLIN
		POINTE-AUX-ROCHES
		TILBURY
	Walpole Island	SOMBRA
		WALPOLE ISLAND
	Wawa	WAWA
	West Lorne	DUTTON
		GLENCOE
		RODNEY
		WEST LORNE
	Westport	WESTPORT
	Winchester	CHESTERVILLE
		CHRYSLER
		FINCH

Appendix D

Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	Names of Rural Geographic Markets	Branch Locations
		SOUTH MOUNTAIN
		WILLIAMSBURG
		WINCHESTER
	Wingham	BLYTH
		BRUSSELS
		MONKTON
		WINGHAM
		WROXETER
Manitoba	Dauphin	DAUPHIN
		GILBERT PLAINS
	Lac du Bonnet	LAC DU BONNET
		PINAWA
	McAuley	ELKHORN
		MC AULEY
	Morden	CARMAN
		MIAMI
		MORDEN
		WINKLER
	Neepawa	NEEPAWA
	Selkirk	PEGUIS
		SELKIRK
		WINNIPEG BEACH
	Steinbach	GRUNTHAL
		STEINBACH
	Stonewall	STONEWALL
		TEULON
	Swan River	SWAN RIVER
	The Pas	THE PAS
	Whitewater	DELORAINE
		SOURIS
		WAWANESA
Saskatchewan	Assiniboia	ASSINIBOIA
		VICEROY
	Davidson	DAVIDSON
		IMPERIAL

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Province	Names of Rural Geographic Markets	Branch Locations
		SIMPSON
	Esterhazy	ESTERHAZY
		STOCKHOLM
	Humboldt	HUMBOLDT
		MEACHAM
		PLUNKET
	Kelliher	ITUNA
		KELLIHER
		LESTOCK
	Kindersley	KINDERSLEY
	Melfort	MELFORT
	Melville	MELVILLE
	Mossbank	CODERRE
		GRAVELBOURG
		MOSSBANK
	Nipawin	CARROT RIVER
		CODETTE
		NIPAWIN
	Outlook	LUCKY LAKE
		OUTLOOK
	Tisdale	ARCHERWILL
		KELVINGTON
		TISDALE
	Weyburn	WEYBURN
Alberta	Brooks	BROOKS
	Canmore	BANFF
		CANMORE
	Consort	CONSORT
		HUGHENDEN
		PROVOST
	Drayton Valley	DRAYTON VALLEY
	Drumheller	DELIA
		DRUMHELLER
		MORRIN
	Hanna	HANNA

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
		SIKSIKA
	High River	BLACK DIAMOND
		HIGH RIVER
		NANTON
		OKOTOKS
		TURNER VALLEY
	Jasper	JASPER
	Lacombe	LACOMBE
	Mayerthorpe	MAYERTHORPE
	Olds	CARSTAIRS
		DIDSBURY
		OLDS
	Peace River	GRIMSHAW
		MANNING
		PEACE RIVER
	Ponoka	HOBBEMA
		PONOKA
	Smoky Lake	BOYLE
		SMOKY LAKE
		WASKATENAU
	St Paul	ST PAUL
	Stettler	STETTLER
	Taber	TABER
	Three Hills	LINDEN
		THREE HILLS
		TROCHU
	Vegreville	MUNDARE
		VEGREVILLE
	Vermilion	DEWBERRY
		VERMILION
	Wainwright	WAINWRIGHT
	Westlock	WESTLOCK
	Whitecourt	WHITECOURT
British Columbia	Ashcroft	ASHCROFT
		CACHE CREEK

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
	Creston	CRESTON
	Fernie	FERNIE
	Gibsons	GIBSONS
		SECHELT
	Kimberley	KIMBERLEY
	Ladysmith	LADYSMITH
	Merritt	MERRITT
	Nelson	NELSON
	Osoyoos	KEREMEOS
		OLIVER
		OSOYOOS
	Parksville	NANOOSE BAY
		PARKSVILLE
		QUALICUM BEACH
	Revelstoke	REVELSTOKE
	Salmon Arm	ARMSTRONG
		CRAWFORD BAY
		ENDERBY
		SALMON ARM
	Smithers	SMITHERS
	Squamish	GARIBALDI HIGHLANDS
		SQUAMISH
	Summerland	SUMMERLAND
	Trail	ROSSLAND
		TRAIL
Northwest Territories	Iqaluit	IQALUIT

Appendix E

RBC Dominion Securities and Nesbitt Burns Inc.
Overlap Markets

This appendix lists the markets in which both bank-owned firms compete in full-service brokerage services and which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any office located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	**May Result in a Substantial Lessening of Competition**	**Will Result in a Substantial Lessening of Competition**
Province	**8 Markets**	**16 Markets**	**39 Markets**
NFLD			Corner Brook
NFLD		St. John's	
PEI			Charlottetown
NS		Bridgewater	
NS		Halifax	
NB			Fredericton
NB			Moncton
NB		Saint John	
PQ	Chicoutimi		
PQ	Drummondville		
PQ		Montréal	
PQ	Québec City		
PQ	Sherbrooke		
ONT		Barrie	
ONT			Belleville/Trenton
ONT			Brantford
ONT			Brockville
ONT			Cobourg
ONT			Collingwood
ONT			Cornwall
ONT			Guelph
ONT			Hamilton
ONT	Kingston		
ONT			Kitchener/Waterloo
ONT			Lindsay
ONT		London	
ONT			Niagara/St. Catherines
ONT	North Bay		
ONT			Oshawa/Whitby
ONT			Ottawa
ONT			Peterborough
ONT		Sarnia	

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RBC Dominion Securities and Nesbitt Burns Inc.
Overlap Markets

This appendix lists the markets in which both bank-owned firms compete in full-service brokerage services and which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any office located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	8 Markets	16 Markets	39 Markets
ONT			Sault Ste. Marie
ONT			Stratford
ONT			Sudbury
ONT	Thunder Bay		
ONT		Toronto	
ONT			Windsor
ONT			Woodstock
MAN			Brandon
MAN			Winnipeg
SASK			Regina
SASK			Saskatoon
SASK			Yorkton
ALTA			Banff/Canmore
ALTA			Calgary
ALTA		Edmonton	
ALTA			Grande Prairie
ALTA			Lethbridge
ALTA		Medicine Hat	
ALTA			Red Deer
BC		Courtenay/Comox	
BC			Dawson Creek
BC	Duncan		
BC			Kamloops
BC		Kelowna	
BC			Nanaimo
BC			Parksville
BC			Penticton
BC		Prince George	
BC		Vancouver	
BC			Vernon
BC		Victoria	

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December 11, 1998

Mr. A. L. Flood
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Mr. A. Charles Baillie
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c.c. The Honourable Paul Martin, P.C., M.P.
Minister of Finance

Dear Chairmen:

The mandate of the Competition Bureau is to ensure that Canada has a competitive marketplace and that all Canadians enjoy the benefits of competition. This requires that proposed mergers be reviewed to determine if they are likely to result in a substantial lessening or prevention of competition.

After a comprehensive review, the Bureau has concluded that the merger of the Canadian Imperial Bank of Commerce (CIBC) and the Toronto-Dominion Bank (TD) (the Banks), as proposed, is likely to lead to a substantial lessening or prevention of competition that would cause higher prices and lower levels of service and choice for several key banking services in Canada.

Traditionally, when the Bureau concludes that a proposed merger is likely to harm competition, it invites the merging parties to propose remedies to remove the likely lessening of competition. Any remedies must ensure that the concerns are removed in all affected markets. Typically, this has involved selling assets and restructuring the proposal.

Canada

However, in this case, as stated in the *Merger Enforcement Guidelines as Applied to a Bank Merger* (the Guidelines), this letter outlines in general terms the sort of measures that have historically been applied to deal with competitive concerns. It is up to the parties to determine if it is appropriate to explore potential remedies with the Bureau after receiving this letter and after taking into account any public interest concerns expressed by the Minister of Finance.

The Bureau has assessed the proposed merger in the traditional manner by gathering information and analysing any possible anti-competitive effects, such as undue concentration, which would indicate a lessening of competition should the merger proceed. The details of the process followed were announced in July 1998 and are contained in the Guidelines.

The Bureau has no regulatory authority to allow or disapprove mergers. Its role is to review the proposed merger for its impact on competition and make the results of its review known to the Banks. In this case, the Bureau will also send a copy of this letter to the Minister of Finance who has the ultimate authority to approve the merger under the *Bank Act*.

The Bureau uses a two-year time frame within which to assess the likely competitive impact of a merger. For the purposes of its analysis, the Bureau examined the impact on competition of all banking services and determined that a detailed analysis was required for three major lines of business in which the banks are engaged: branch banking services to individuals and businesses, credit cards, and securities.

Other areas of banking did not pose competition concerns and therefore were not subject to detailed review. While the Bureau anticipates a number of significant changes to the banking industry over the next decade due to innovation and technology, these are unlikely to mitigate the anti-competitive impact of the proposed merger in the next two years.

As outlined in the Guidelines, the Bureau conducted the analysis of both the proposed merger of TD and CIBC and that of the Royal Bank of Canada and Bank of Montreal at the same time. To ignore either proposed transaction in the analysis of the other would fail to capture the full impact of both occurring at the same time. In this regard, it is important to assess how the removal of two major banks would affect concentration levels and the competitive vigour of the industry.

SUMMARY OF CONCLUSIONS

As a result of the review conducted by the Bureau and on the basis of the materials submitted, advice of experts, and information provided by third parties, the merger as presently structured will have the following results.

A. BRANCH BANKING

For individuals, branch banking services consist of personal transaction accounts, personal loans/lines of credit and residential mortgages.

For businesses, in particular small and medium-sized businesses (SMEs), these services consist of business transaction accounts and related services, and operating loans.

(i) The proposed merger:

- **will result in a substantial lessening of competition in 36 of the 179 local markets in which these banks compete;**
- **may result in a substantial lessening of competition in another 53 local markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**
- **will not result in a substantial lessening of competition in the remaining 90 local markets.**

(ii) The proposed merger:

- **will result in a substantial lessening of competition in Prince Edward Island, Yukon and the Northwest Territories for mid-market businesses with operating loans between $1 million and $5 million.**

B. CREDIT CARDS

(i) The proposed merger:

- **will not result in a substantial lessening of competition in the market for general purpose credit card network services.**

(ii) **The proposed merger:**

- **will not result in a substantial lessening of competition in the market for the issuing of general purpose credit cards to individuals.**

(iii) **The proposed merger:**

- **will result in a substantial lessening of competition in the *Visa* merchant acquiring market (the business of providing settlement of Visa credit card transactions to merchants).**

(iv) **The proposed merger:**

- **may result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring (the business of providing both terminals and settlement of credit card transactions to merchants) for SME merchants.**

  ***Primary* merchant acquiring is problematic and requires further detailed review at the local or regional level before we can confirm if a substantial lessening of competition will result.**

- **will result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring for SME merchants should both mergers proceed.**

C. SECURITIES

(i) **The proposed merger:**

- **will result in a substantial lessening of competition in one market of the 22 local markets in which CIBC Wood Gundy and TD Evergreen compete in full-service brokerage;**
- **may result in a substantial lessening of competition in two markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**
- **will not result in a substantial lessening of competition in 19 markets.**

These conclusions are based in part on the market share levels as measured by assets under administration in local markets. The Bureau would be prepared to review these conclusions, if information having a material impact becomes available at the local level which would indicate that the market shares, as calculated, significantly overstate the market position of the Bank-owned firms.

(ii) The proposed merger:

- will not result in a substantial lessening of competition in the national market for discount brokerage services.

  This conclusion takes into account the moderate barriers to entry combined with the number of new competitors, which together have steadily eroded the dominant position of Greenline.

THE PROPOSED MERGER

The CIBC and TD notified the Bureau of their proposal on April 17, 1998. This immediately triggered a review under the merger provisions of the *Competition Act*. The Banks seek to amalgamate under the *Bank Act* to combine all their operations which provide a broad range of services to both individuals and businesses through their national branch networks, credit card operations and securities firms.

The proposed merger would combine the banks ranked second and fifth in Canada based on the value of Canadian assets. As of December 31, 1997, the merging banks held approximately $275 billion in assets in Canada.

The Banks have taken the position that it is necessary to become larger and more efficient to compete effectively, both in Canada and internationally. The Banks contend that larger foreign institutions have a cost advantage, including those using electronic technology to deliver financial services, and are becoming an increasing threat. The Banks also assert that the merger would result in significant cost savings.

SCOPE OF THE BUREAU'S REVIEW

The Bureau's mandate under the *Competition Act* is confined to assessing whether or not a proposed merger is likely to lessen or prevent competition substantially. This will be the case when a merger is likely to result in higher prices, less choice or reduced service. Any merger that is likely to have such an impact may be prohibited under the Act, unless there are efficiencies created by the merger that outweigh the negative impact on competition.

Throughout its review, the Bureau obtained information from the four banks, including approximately 400,000 pages of documents. The Bureau met with representatives of the CIBC and TD at every stage of the process to ensure that it fully understood the Banks' position, to obtain information, and to explain and discuss the results of its review.

The Bureau obtained valuable information from individuals, groups representing consumers and business, other providers of financial services, and government agencies. Furthermore, the Bureau sought the advice of more business and economic experts than in any other merger it has reviewed.

The review process took approximately eight months because of the voluminous nature of the documentation, the complexity of the banking business, the timing of the report of the Task Force on the Future of the Canadian Financial Services Sector (the Task Force), and the need to obtain information under court order from third parties and the banks.

Attached as Appendix A is a glossary of terms and definitions that the Bureau has compiled in conducting its review.

ANALYTICAL APPROACH

The analysis conducted by the Bureau covered an extensive range of products and geographic areas in which the banks compete throughout the country. The framework for analysis in the Guidelines was written after extensive public consultation and reflected a broad consensus that the Bureau was using the right approach.

As explained in the Guidelines, there are four major steps in determining whether or not a particular bank transaction would substantially lessen or prevent competition.

- ***Relevant markets are defined*** to identify which products, where and with whom the banks compete. A relevant market consists of a group of products that are close substitutes. Each group represents a separate product market with its own geographic market dimensions.

- ***Market shares and concentration levels are calculated*** for each relevant market. A more detailed review is generally required if a) the share held by the banks is 35% or greater, or b) the combined share held by the four largest competitors is 65% or greater (and the share held by the merging banks exceeds 10%).

- ***A variety of competitive criteria are evaluated*** for each relevant market under detailed review. The goal is to determine whether or not the merger is likely to result in a substantial lessening or prevention of competition. These typically include the extent of foreign competition faced by the banks, the barriers that would be encountered should other companies wish to enter a particular market, the impact of technology, whether or not the merger will remove a vigorous and effective competitor, the effectiveness of the remaining competition, and any other factor relevant to competition.

- ***Claimed efficiencies are considered*** if it is concluded that the merger results in a substantial lessening or prevention of competition. The Act provides that a merger may proceed provided a) it is likely to result in efficiencies that would not otherwise be realized, and b) such efficiencies would outweigh the anti-competitive impact.

Under the Bureau's analytical approach, it is presumed a merger will not harm competition when markets are unconcentrated, entry is easy and effective competition remains. Therefore, the analysis may end if at any stage the evidence demonstrates that the relevant market will not result in competition concerns.

COMPETITION ANALYSIS

A. BRANCH BANKING

This section examines the markets for branch banking services provided to consumers and businesses in Canada.

PRODUCT MARKETS

PERSONAL FINANCIAL SERVICES

Within this category of services provided to individuals through branches, the Bureau defined the following product markets:

Personal long-term investments	**Personal transaction accounts**
Personal short-term savings	**Residential mortgages**
Student loans	**Personal loans/lines of credit**

Personal long-term investments include most mutual funds, bonds and stocks. Personal short-term savings include guaranteed investment certificates, money market mutual funds, Canada and provincial savings bonds, and treasury bills.

The Bureau concluded that no detailed review was required with respect to student loans, personal long-term investments and short-term savings. Either the remaining competition was effective or the applicable thresholds were not crossed for these products. A detailed review was required for the remaining product markets.

Personal Transaction Accounts

Transaction accounts are the core of the personal banking relationship. They enable an account holder to make deposits and withdrawals through savings or chequing accounts and to receive reports on those activities. These transactions may take place either at the local branch or through some other means such as an automated banking machine (ABM), debit card, telephone, personal computer or the Internet.

Residential Mortgages

A residential mortgage is the principal form of long-term personal debt for many Canadians. Most mortgages are used to buy a home. For those with significant equity, it is possible to use a line of credit to fund a home purchase. However, this option is not open to home-owners with lower levels of equity. Consequently, we have decided that

residential mortgages are sufficiently distinct from lines of credit that they constitute a relevant product market.

Personal Loans/Lines of Credit

Personal loans and lines of credit are another distinct type of consumer credit for the purposes of our analysis. Credit cards, with the exception of low-rate credit cards, carry interest rates that are more than twice the interest rates of personal loans and lines of credit and therefore are not considered good substitutes. Similarly, loans from consumer finance companies are priced so much higher than loans from deposit-taking institutions that they have been excluded from this market.

BUSINESS FINANCIAL SERVICES

Within the category of services provided to businesses at the branch level, the Bureau defined the following product markets:

Term loans
Business transaction accounts and related services
Operating loans

Term loans, including non-residential mortgages, are generally mid- to longer-term in nature and typically secured by collateral to purchase equipment, buildings and real estate. We have included leased equipment in this category. The Bureau concluded that no detailed review was required for term loans, because the remaining competition was effective and provided businesses with adequate competitive alternatives or the applicable thresholds were not crossed. A detailed review was required for the remaining product markets.

Business Transaction Accounts and Related Services

Transaction accounts are the core of the business banking relationship. They allow firms to pay bills and collect receivables. Other products, such as night deposit and cash and coin services, are generally linked to this account.

Operating Loans

Operating loans are intended for the short-term operating needs of businesses such as financing receivables and inventory. Banks will generally not give an operating loan unless a business has its transaction account at the same bank. This gives the lending banks the ability to monitor a customer's business on a continuing basis. To gauge the potential impact of the proposed merger in this market, it is necessary to examine the competitive choices available to firms of different sizes.

Since large corporations typically have access to more domestic and foreign suppliers and ready access to capital markets, operating loans to these businesses were not considered problematic. Small and medium-sized[1] businesses generally have fewer choices and rely on banking services at the local level. Operating loans with authorizations up to $1 million were examined for SMEs. Larger firms in the mid-market tier also face more limited choices than those in the large corporate sector. Loan authorizations in the $1-million to $5-million range were examined for these mid-market firms.

GEOGRAPHIC MARKETS

After extensive examination of the records produced by the Banks, interviews with industry participants, econometric analysis prepared by the Bureau, and on the advice of the experts retained by the Bureau, we have concluded that the geographic market is local for the relevant products listed above, for customers of personal financial services and for SME businesses.

For mid-market loans between $1 million and $5 million, the geographic market is regional in scope. The Bureau has used provincial boundaries to approximate these regional geographic markets.

The Bureau identified 112 local markets in urban areas with populations of 10,000 to 100,000, using the integrated economic areas identified by Statistics Canada as census agglomerations (CA), and 25 urban areas of more than 100,000 people, identified by Statistics Canada as census metropolitan areas (CMA). In total, there are 137 local urban markets. The operations of the Banks overlap in 111 of these urban markets.

In rural areas, the Bureau examined the competitive environment of all branches of the CIBC and TD within 20 km of each other. This decision was based largely on the banks' documents. As a result, 68 local rural markets were identified for the proposed merger.

In total, the operations of the CIBC and TD overlap in 179 local markets.

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[1] The SME sector encompasses a diverse range of businesses and services that defy easy measurement based on dollar sales or loans outstanding. However, to simplify the analysis, the Bureau has adopted the definition of SME borrowers used by the Conference Board, that is, firms that borrow $1 million or less. Within the SME sector, there are at least two distinct groups based on the nature of security offered for the loan: individuals and small firms that rely on a personal covenant; and firms that secure the loan based on an assessment of the creditworthiness of the business itself. In attempting to capture these differences, the Bureau looked at market share information for operating loans up to $200 000 and between $200 000 and $1 million.

MARKET SHARE AND CONCENTRATION LEVELS

Given that the four firm concentration threshold was exceeded for at least one of the products under detailed review in each market, the Bureau's review included all 179 local markets.

For operating loans to mid-market firms in the $1-million to $5-million range, the 35% threshold was exceeded in Prince Edward Island, Yukon and the Northwest Territories.

In order to calculate these market shares and concentration levels for branch banking products, the Bureau obtained the market share data base maintained by the Canadian Bankers Association (CBA), and supplemented it with information from many other financial institutions and the Canadian Payments Association. As a result, the data base includes nearly all deposit-taking institutions. For those products where non-deposit taking institutions are significant competitors, such as insurance companies for residential mortgages, further adjustments to the data base have been made.

This data base is the best available in Canada at this time. The Banks have raised a number of issues relating to the CBA data base. For example, the CBA data base does not categorize business transaction account data by size of business. This may result in some market shares being either over- or understated for SME firms. The Bureau is willing to further discuss these issues with the Banks.

COMPETITIVE CRITERIA

Barriers to Entry

In order to assess the effect of the merger on competition, the Bureau must consider the height of entry barriers into banking markets. Even where a merger exceeds the Bureau's initial thresholds, if barriers to entry are low, the merged firms will be constrained by the likelihood of new entrants, and will behave in a manner consistent with a competitive market. In conducting this analysis, the Bureau considers whether or not entry or expansion on a scale sufficient to offset a substantial lessening of competition is likely to occur within a two-year period following the merger.

The Bureau has concluded that the entry barriers for new entrants into branch banking are high.

The extensive branch networks of the five major banks represent a significant sunk investment that is difficult for new entrants to replicate. Moreover, it takes an extended period of time before a branch can be expected to break even, with estimates ranging from three to seven years. It should also be noted that the major banks have an advantage over new entrants in that they have already secured the best locations in most markets.

No one interviewed by the Bureau expects significant new entry into branch banking. Consequently, we have concluded new branch bank entry, other than by acquisition, is highly unlikely.

In addition to the costs of establishing a branch network, new entrants face a number of other barriers. There is some evidence that economies of scale and scope make entry more difficult for smaller firms. The evidence also indicates that customers are reluctant to switch their primary financial institution where their transaction account resides. Contributing factors would be the widespread use of direct payroll deposit and automatic bill payment.

In addition, the major banks have strong brand names that have been developed over decades of advertising, and reinforced by local branch presence throughout Canada. An indication of the strength of customer loyalty is demonstrated by a report prepared for the Task Force that says no institution has gained more than 1% market share in any year except by acquisition.

We recognize that the supply of residential mortgage loans is becoming less branch-dependent due to the development of alternative origination channels. We note that the growth of new entrants for this product is constrained by consumers' limited acceptance to date of the use of independent mortgage brokers, the Internet, telephone and mail. This is particularly the case in rural and remote communities.

Small and medium-sized business customers appear to be even more branch-dependent than personal banking customers, due to the need for services such as night deposit, and cash and coin services. As with individual consumers, SME customers do not change their primary banking relationship very often, which makes it more difficult for new entrants to attract customers.

There are also a number of regulatory barriers that discourage entry:

- Capital taxes must be paid regardless of profitability, raising the sunk costs of entry through start-up losses.

- Capital requirements and reporting costs are proportionately a greater burden for smaller firms.

- Provincial regulation or business power restrictions in the federal *Cooperative Credit Associations Act* may place limits on the ability of credit unions to compete in certain areas, such as commercial lending.

- After 10 years, new Canadian banks (other than those owned by financial institutions which are themselves widely-held) become subject to the widely-held rule. This means that no shareholder can own more than 10% of any class of shares.

- This 10% rule, combined with the rules requiring the head office to be located in Canada and the majority of the board of directors to be Canadian residents, effectively eliminates the possibility of foreign entry through the acquisition of an existing Schedule I bank.

- Once a Schedule II bank or trust company has equity of $750 million or greater, there must be a public float of at least 35% of its voting shares, subject to exemption by the Minister of Finance.

- Access to the payments system is limited to federally and provincially regulated deposit-taking institutions.

While existing competitors do not face the same levels of barriers new entrants face, expansion is impeded by the high costs of gaining new customers due to switching costs and the expectation that branch profitability may not be realized for up to seven years.

Changes in Technology and Innovation

The Bureau has examined the impact that technology and innovation may have on lowering the barriers to entry and expanding the scope of the geographic market. While Canadians are making increased use of technology to do their banking, all evidence indicates that branches remain crucial to the success of a bank. Experts say this is unlikely to change within two years following the merger, which is our period of analysis.

The Banks have indicated that the role of the traditional branch has been transformed as customers have migrated to the newer channels of distribution such as automated banking machines, debit cards, telephone, personal computer and Internet banking.

These methods of distribution, however, have not eliminated the need for bank branches. Personal contact, including advice and problem solving, remains key for sales of many financial products. All of the major banks are in the process of reconfiguring their branches to improve their sales capability, and have underlined the continuing importance of branch banking to build and maintain the relationships between bankers and their personal and business customers.

According to the McKinsey & Company report prepared for the Task Force, transaction volume through branches from 1994 to 1996 grew at a 3% annual rate. While recent data for some major banks indicates a decline in transaction volume as these newer channels of distribution have become more popular, our conclusion remains that branches will

continue to be an important point of access to financial services for many bank customers for the foreseeable future.

The Banks have argued that Internet banking will significantly reduce barriers to entry and widen the scope of the geographic market by eliminating the need for a costly physical presence. Internet or virtual banking is in a very early stage of development. According to a recent Ernst and Young report, Internet banking is generally viewed by users at this time as a poor substitute for many of the services provided by a branch. As well, security considerations remain a barrier to widespread consumer acceptance and adoption.

In the view of a technology expert made available by one of the merging Banks, Internet technology will not replace the need for physical presence in the next five to ten years. Another expert interviewed by the Bureau puts the time frame at between 10 and 15 years. These time frames are well beyond the two-year period considered by the Bureau in assessing the potential for new effective competitors to emerge.

In some respects, technology may have raised rather than lowered barriers to entry. According to records produced by the banks, customers have come to expect access to the new channels of distribution as a complement to using their branches.

The major banks, for example, have established proprietary nationwide ABM networks. While the Interac system allows cash withdrawal on a shared basis, other functions, such as deposits, passbook update, the transfer of funds between financial institutions, and bill payment, are not currently offered on a shared basis over the Interac network. New entrants would have to offer a network of ABMs to match the major banks. Should the Interac system allow for full functionality, including deposit-taking and funds transfer, the need for an extensive proprietary ABM network for new entrants would be reduced.

Foreign Competition

The Bureau defines foreign competition as those foreign institutions that are able to offer Canadian consumers financial services from outside Canada. Due to regulatory constraints, such competition is minimal for individual banking products. Foreign-controlled deposit-taking institutions that operate in Canada are discussed in the section on effective competition remaining.

Removal of an Effective Competitor

The proposed merger will reduce from five to four the number of major national banks competing in Canada. As the second- and fifth-largest banks in Canada, CIBC and TD are obviously effective competitors and customers have benefited from the competition between them. The loss of a major competitor is further cause for concern in light of the already high levels of concentration that exist in most local markets.

Effective Competition Remaining

Assessing the effectiveness of the remaining competition is an important consideration in determining whether or not the merged bank would be constrained in raising prices or reducing the quality or level of service. While we focus here on other deposit-taking institutions, we also took into consideration the competition provided by non-deposit taking institutions. This was most evident in residential mortgages where adjustments were made to market shares to account for the competition provided by other institutions.

The National Bank of Canada and Le Mouvement des Caisses Desjardins (Caisses Desjardins) represent significant competition in Quebec, and there are fewer competition concerns arising from the proposed merger in that province.

Canada Trust is an important regional player in Ontario, Alberta and British Columbia. Of the Schedule II Banks, only the Hongkong Bank of Canada has meaningful retail banking presence, with about 117 branches located in major centres and throughout British Columbia.

The credit unions appear to be effective competitors to the banks in Saskatchewan, Manitoba and the lower mainland of British Columbia, but are small players in other parts of the country and in business operating loans above $1 million. Alberta Treasury Branches provide competition in many local markets in Alberta.

The Bureau has considered the degree to which these competitors could replace the competition lost as a result of the proposed merger.

The Bank of Nova Scotia clearly has the capacity to expand and does not face the same entry barriers as would a new national entrant. However, the Banks have argued that one of the prime motivations for the merger is to capture additional substantial economies of scale which they believe exist. If this were true, the Bank of Nova Scotia, at less than one-half the size of the merged bank in the domestic market, would be at a significant cost disadvantage and would not be able to compete effectively unless it also merged with another major bank. By the same token, much smaller institutions, such as Canada Trust, National Bank and the credit unions, would be even less able to compete effectively due to much higher cost positions.

As noted above, in the past it has been very difficult to entice consumers to switch their primary banking relationship, except by acquisition. The potential for the merged bank to cross-sell and data mine its larger customer base may further impede switching. While a competitive opportunity may arise during the transition of customers from one of the merging parties to the other, the history of past acquisitions has been that such windows of opportunity last less than one year and that customer retention by the merging parties has

been very high. Under these conditions, the incentive of the remaining firms to compete vigorously could be diminished.

Royal Bank and Bank of Montreal, individually or jointly, clearly have the ability to compete. As with the Bank of Nova Scotia, a key question is whether or not they would have the same incentive to compete, given the reduction in the number of major competitors resulting from one or both mergers.

The Bank of Nova Scotia, Royal Bank and Bank of Montreal, as existing banks with national coverage, do not face the same barriers to expansion in individual markets as would new entrants. The effectiveness of such expansion, however, is constrained by customer switching costs and the expectation that branch profitability may take up to seven years. Furthermore, as these banks continue to rationalize their branch networks, it is unlikely that they would choose to enter or expand in mature markets with low growth prospects.

It would be difficult for Canada Trust and the National Bank to replicate the competition removed by the merger where they do not now compete. National Bank, for example, tried to expand significantly into southwestern Ontario in the late 1980s and subsequently withdrew from many locations. As well, Canada Trust has focussed its efforts on faster-growing, affluent urban and suburban markets and has shown little interest in expanding into many mature markets where the major banks are entrenched.

Most credit unions have a limited capacity to take on a large number of additional customers from the merging parties. In addition to capacity constraints faced by some community credit unions, there are a significant number of closed-bond credit unions, whose members are limited to the same employer, industry, ethnic group or parish.

The Banks have pointed to ING Direct (ING) as the type of competitive entrant now emerging. ING offers a non-chequing investment savings account from one office in Toronto. The account can be offered only if the consumer has a chequing account elsewhere. This product has no service fees, no minimum balance requirement and is fully insured by the Canada Deposit Insurance Corporation (CDIC). ING pays a higher rate of interest than the major banks. According to ING advertising, the average rate of interest paid over the past year is more than 10 times that offered by the major banks on a deposit of $4 500. Despite this price differential, ING has attracted less than 0.2% of total consumer deposits in the past 15 months in Canada. It is too early to say how successful this experiment will be. It is also interesting to note that ING will be supplementing its branchless service by establishing a physical presence through ABMs in Canadian Tire stores.

Another method of entry that has gained prominence in other countries is the use of kiosks in retail locations such as grocery or department stores. Two recent examples in Canada are the entry of PC Financial, offered by Loblaws and supplied by CIBC, and the alliance between Toronto-Dominion and Wal-Mart. PC Financial offers a no-fee chequing account

as well as personal loans and mortgages at lower rates than the major banks' posted rates, and is competitive with discretionary rates offered by the major banks. While this could be viewed as a new service, it could also be viewed as a different delivery channel for CIBC rather than an entirely new competitor. Such alliances may also reduce access to prime locations for potential entrants.

All of the domestic banks, Canada Trust, and a number of credit unions offer business banking services for SME customers. Of the Schedule II banks, only the Hongkong Bank of Canada has a sufficient number of branches to have any competitive significance in this market.

The Banks point to Wells Fargo as an emerging competitive presence. Wells Fargo has begun a small business lending program in Canada, providing $50 million in loans. It is too early to say whether or not the Wells Fargo model will work well in Canada. With less than 0.05% of all SME lending in Canada, it is clear that it does not constitute a significant competitor today in the Canadian market.

For mid-market firms, most credit unions are not effective competitors, due to the sophistication of the services required and the larger loan size. However, Schedule II banks are able to compete in some urban areas.

Interdependent Behaviour

The Bureau has examined the proposed transaction to determine the potential for a substantial lessening of competition through the exercise of interdependent behaviour at both local and national levels. This lessening can result from either explicit agreements or from implicit recognition among firms that, in the new post-merger environment, reduced competitive vigour would be more profitable for all.

A small number of sellers in any one market increases the risk of interdependent behaviour, and the Bureau has determined that the proposed merger significantly increases concentration in an already concentrated industry. If both proposed mergers proceed, the number of major banks will decline from five to three, and concentration will be even higher. A high level of concentration in the relevant market is a necessary, but not sufficient, condition for determining whether or not interdependent behaviour is likely to substantially lessen or prevent competition.

Other factors that facilitate interdependent behaviour are high barriers to entry, the homogeneity of products, the predictability of demand and costs, the stability of market shares, good information about pricing and customers, and the degree of industry cooperation (e.g. in associations, joint ventures, alliances, networks and loan syndicates). To a large degree, these factors appear to be present in this industry.

It is important to note that the Bureau does not believe that collusion in banking is likely, given the repercussions such conduct would have if detected. However, in view of the expert advice received by the Bureau on this issue, there is concern that the proposed merger will increase the risk for reduced competitive vigour among the remaining major banks. This risk is compounded should the other proposed merger also proceed.

IDENTIFYING THE PROBLEMATIC MARKETS

To identify those markets in which a substantial lessening of competition would likely occur, the Bureau employed the principles explained below.

- Where the combined share of the Banks in either personal or business transaction accounts is 45% or greater, it is the Bureau's conclusion that the proposed transaction will result in a substantial lessening of competition and would require a remedy. Transaction account data was chosen because it is the core of the banking relationship for personal and business customers.

- Those markets where the combined share in either personal or business transaction accounts is between 35% and 45%, or the combined share of any of the other relevant products exceeds 35%, are problematic. These markets require more review to determine if there are mitigating factors that would cause us to change this conclusion on the basis of new evidence obtained from the Banks and third parties. It should be noted that our concern is heightened by the fact that, in many of these markets, the combined share of the Banks in products other than transaction accounts exceeds 45%, some by a considerable margin.

- The likelihood of concluding that the transaction would result in a substantial lessening of competition for markets in the problematic category is increased if the transaction proposed by the Royal Bank and Bank of Montreal proceeds.

- We have concluded that the merger will not result in a substantial lessening of competition where the combined market share of the Banks is below 35% in any relevant product.

Appendix B provides details on this division of markets. Appendix C identifies the markets that fall into each category. Appendix D describes the rural markets identified by the Bureau.

These appendices set out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in the attached appendices.

CONCLUSIONS

For individuals, branch banking services consist of personal transaction accounts, personal loans/lines of credit and residential mortgages.

For businesses, in particular SMEs, these services consist of business transaction accounts and related services, and operating loans.

(i) The proposed merger:

- **will result in a substantial lessening of competition in 36 of the 179 local markets in which these banks compete;**
- **may result in a substantial lessening of competition in another 53 local markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**
- **will not result in a substantial lessening of competition in the remaining 90 local markets.**

(ii) The proposed merger:

- **will result in a substantial lessening of competition in Prince Edward Island, Yukon and the Northwest Territories for mid-market businesses with operating loans between $1 million and $5 million.**

B. CREDIT CARDS

PRODUCT MARKETS

Within this category, we defined the following relevant product markets:

General purpose credit card issuing to businesses
General purpose credit card network services
General purpose credit card issuing to individuals
Visa merchant acquiring
MasterCard merchant acquiring
Primary merchant acquiring

The Bureau concluded that no further review was required for general purpose credit card issuing to businesses (including corporate cards and purchasing cards), because the remaining competition was effective and provided businesses with adequate competitive alternatives or because the applicable thresholds were not crossed. For the purposes of this analysis, general purpose credit cards include charge cards such as Diners Club/enRoute or American Express. In addition, the proposed transaction does not have an impact on the MasterCard acquiring market since neither CIBC nor TD are members of MasterCard. A detailed review was required for the remaining product markets.

General Purpose Credit Card Network Services

A general purpose credit card network is the system that enables cardholders to have their cards widely accepted for the purchase of goods and services. Competition among networks, such as Visa and MasterCard, is known as inter-system competition. Networks compete with each other by promoting brand awareness and by improving their systems, with the objective of being the preferred method of payment for goods and services.

Competition within a network also occurs among its members. This is known as intra-brand competition. This type of competition is influenced by the number and type of network members, and by the rules and regulations of the network.

GEOGRAPHIC MARKET

The geographic market is national.

MARKET SHARES AND CONCENTRATION LEVELS

In Canada, Visa is the largest network in terms of total dollar volume of purchases made with general purpose credit and charge cards, followed by MasterCard, American Express and Diners Club/enRoute. The market shares for the networks will not likely change post-merger since both CIBC and TD are Visa members.

COMPETITIVE CRITERIA

Barriers to Entry

The barriers to new entry into the network market are very high, involving significant investment in establishing brand recognition among consumers and merchants, as well as in developing systems infrastructure.

Removal of a Vigorous and Effective Competitor

The proposed merger of CIBC and TD will not have an impact on the effectiveness of Visa as a network. However, CIBC/TD would be the dominant player within the Visa association. Should both mergers proceed, the position of CIBC/TD within Visa Canada is likely to increase significantly, raising questions about corporate governance and the impact this governance could have on competition among Visa members, that is, on intra-brand competition.

CONCLUSION

The proposed merger:

- **will not result in a substantial lessening of competition in the market for general purpose credit card network services.**

General Purpose Credit Card Issuing to Individuals

While individual consumers use different methods for paying for goods and services, credit cards offer certain unique features that distinguish them from other means of payment. In particular, credit cards offer consumers a convenient form of credit: firstly, in the form of interest-free credit, if the entire balance is paid off within a specified period of time; or alternatively, the ability to carry a balance, if the entire balance is not paid off. Credit cards also provide a number of other features, including widespread merchant acceptance and the ability to make remote purchases.

Charge cards offered by American Express and Diners Club/enRoute offer a number of the same features, except the ability to defer payment for purchases on a pre-approved credit limit. Nor are they as widely accepted by merchants as Visa and MasterCard. However, due to the similarity of credit cards and charge cards, with the advice of experts retained by the Bureau, the Bureau has defined the issuing of Visa, MasterCard, American Express and Diners Club/enRoute cards as a relevant product market.

GEOGRAPHIC MARKET

While the branch network has historically been an important channel in the issuance of credit cards, the market appears to be changing. Since credit cards are effectively sold to consumers by mail, we have concluded that the geographic market is national.

MARKET SHARES AND CONCENTRATION LEVELS

The merging parties will have slightly greater than 35% of the issuing market based on gross dollar volume of transactions. If both mergers proceed, the concentration ratio for the top four firms will exceed the 65% threshold.

COMPETITIVE CRITERIA

Barriers to Entry

Barriers to entry for the issuance of general purpose credit cards outside of the established Visa and MasterCard brands are very high, due to the time and difficulty in building widespread consumer and merchant acceptance. However, barriers to entry are not as significant within the established Visa and MasterCard brands.

Recent entry has occurred in the past five years. New MasterCard issuers include Canadian Tire Acceptance Ltd., MBNA Canada Bank (MBNA), Capital One, Trans Canada Credit and ING Canada Bank. Bank One has recently become a member of Visa Canada and is now issuing cards.

Effective Competition Remaining

There would appear to be effective competition remaining in the market. In the past few years, competition has increased with the expansion of MasterCard membership and the entry of U.S. firms that specialize in credit card issuing, namely MBNA, Capital One and most recently Bank One. While MBNA and Capital One currently hold a small share of the market, they offer competitive products that have caused the other card issuers to respond.

CONCLUSION

The proposed merger:

- **will not result in a substantial lessening of competition in the market for the issuing of general purpose credit cards to individuals.**

Visa Merchant Acquiring

In order to accept credit cards as a method of payment, merchants must contract with an acquirer for services to process and guarantee payment of credit card transactions. Visa or MasterCard acquiring members are responsible for setting the fees charged for this service (the merchant discount rate), for guaranteeing payment to the merchant and for settling with other issuers who are members of either the Visa or MasterCard associations, respectively.

Visa acquirers compete with each other for the right to acquire and settle Visa transactions, while MasterCard acquirers compete with each other to acquire and settle MasterCard transactions. Each Visa acquirer sets the merchant discount rate for its Visa transactions, and each MasterCard acquirer sets the merchant discount rate for its MasterCard transactions.

Most merchants need to be able to accept both Visa and MasterCard. Under the existing rules and policies of Visa and MasterCard, members may not acquire transactions of a competing card. Consequently, Visa merchant acquiring and MasterCard merchant acquiring constitute separate markets.

Both CIBC and TD are Visa merchant acquiring members and therefore there is overlap in their businesses in the Visa merchant acquiring market.

Primary Merchant Acquiring

Primary acquiring can be defined as a package of services sold to merchants, which includes both the provision of terminal services and the provision of either Visa or MasterCard acquiring services.

Terminal services include the provision of the terminal at the merchant's location. It also includes data transmission and software to route transactions to the appropriate network, such as MasterCard, Visa or Interac debit. The majority of terminals now being deployed in Canada are multi-functional and allow merchants to accept all types of credit cards as well as debit cards.

For small and medium-sized merchants, terminal services and acquiring services for either Visa or MasterCard are usually purchased as a package from the same financial institution, although the Bureau recognizes that, for large merchants, the services may be purchased separately.

Typically, merchants have at least two acquirer relationships, but only one terminal provider. The Banks claim that new arrangements are being developed for the convenience of merchants. An example is the "Merchant's Edge" program between CIBC and Canada Trust, where CIBC is the primary acquirer furnishing the terminal and, at the merchant's option, Canada Trust is the MasterCard acquirer setting the MasterCard merchant discount rate. This reduces the need for merchants to establish a second acquiring relationship themselves. However, the Bureau understands that for primary acquirers to establish a partnership of this nature, they need to be assured that their partner will not target their primary acquiring relationships. Such assurance will only arise if the partner has limited or no presence in the primary acquiring market.

Geographic Market

Visa Merchant Acquiring

The same considerations apply with respect to this market as those that apply to the primary merchant acquiring business.

Primary Merchant Acquiring

At present, many financial institutions service their merchant acquiring customers through their branches. Increasingly though, financial institutions are relying on centralized service centres and specialized teams of sales representatives to service this market, which may be expected to expand the geographic market to a national level. Consequently, the Bureau has concluded that this is a market in transition to the national level.

Market Shares and Concentration Levels

Visa Merchant Acquiring

With respect to the Visa merchant acquiring market, the combined market share for CIBC and TD exceeds the 35% threshold on a national basis.

Primary Merchant Acquiring

The four largest primary merchant acquirers at the national level are Royal Bank, Bank of Montreal, CIBC and TD. The combined market share for CIBC and TD primary merchant acquiring is within the range of 30% to 40% at the national level.

COMPETITIVE CRITERIA

Barriers to Entry

Visa Merchant Acquiring

Within the Visa association, financial institutions need to be deposit-taking in order to be acquiring members of the Visa brand. As such, the entry of third-party processors from the United States would not, under the present Visa rules, provide entry as a Visa acquirer, because they are not deposit-taking institutions in Canada. Furthermore, in terms of a MasterCard primary acquirer seeking to establish a "Merchant's Edge" type of arrangement with a Visa merchant acquirer, as noted above, the choice would likely be limited to those institutions who will not target their primary acquiring relationships. In terms of new entrants into the Visa merchant acquiring markets, not only would they need to be deposit-taking institutions, but the time frame for building the gateway systems required in light of other information technology priorities, such as year 2000 problems, would mean that effective entry is unlikely to occur within the Bureau's two-year time frame.

Primary Merchant Acquiring

There are significant barriers to entry, particularly in providing primary acquiring services to SME merchants.

The Banks have a strong advantage in an established brand name and the use of an extensive national branch network to facilitate referrals and/or service to clients. The majority of SME merchants still prefer to purchase their primary merchant acquiring services from their main financial institution. This places non-banks at a disadvantage and may deter entry into this market.

The Banks contend that non-banks, particularly third-party processors that are able to leverage scale from their U.S. operations, are poised to enter the Canadian marketplace as primary acquirers. Since these firms are not members of the associations in Canada, they do not by themselves have direct access to the credit card networks. As a result, they would need to ally themselves with an existing Visa or MasterCard acquiring member in order to provide the full primary acquiring package. Although there is evidence that these processors are operating in Canada as providers of terminal services, in partnership with some Visa and MasterCard acquirers, they appear to be targeting large merchants who are able to purchase their terminal services separately. They are not generally servicing SME merchants.

The Bureau also understands that economies of scale in transaction processing may present a barrier for smaller Canadian banks entering or seeking to expand their primary merchant acquiring business, although the precise nature of these economies of scale has not been determined. While economies of scale may present difficulties for smaller Canadian institutions, they would not be a significant barrier for U.S. acquirers entering the Canadian market to the extent that they have leverage from their existing U.S. transaction volumes.

The Bureau recognizes that entry by a large third-party processor allied with an existing Visa or MasterCard member could significantly change the competitive dynamic of this market. However, it does not appear likely that this will occur within the two-year time frame of our analysis.

Removal of an Effective Competitor

The proposed merger will result in the loss of competitive rivalry between CIBC and TD, and will remove an important competitor, particularly for SME merchants, in both the primary merchant acquiring market and the Visa merchant acquiring market. CIBC and TD are among the top four primary merchant acquirers in Canada and the top three Visa merchant acquirers. They have been effective competitors, and customers have benefited from the competition between them.

Effective Competition Remaining

Visa Merchant Acquiring

Excluding CIBC and TD, there are five Visa member banks that offer Visa merchant acquiring services. Post-merger, the combined CIBC/TD entity will have the largest share of the Visa merchant acquiring market and only two other Visa merchant acquirers have a national presence. Should both mergers proceed, with Royal Bank converting to MasterCard, that number would be reduced to one.

With both mergers proceeding, where a MasterCard primary merchant acquirer is looking to partner with a Visa merchant acquirer for a "Merchant's Edge" type of arrangement, choices would be limited. At this stage, it is unclear how well positioned smaller Visa merchant acquirers are to take on increased transaction volume and risk control systems associated with operating a national Visa merchant acquiring business.

Primary Merchant Acquiring

The Royal Bank, Bank of Montreal and Bank of Nova Scotia have been effective competitors with CIBC and TD in the primary acquiring market for SME merchants. The National Bank and Caisses Desjardins represent significant competition in Quebec.

Despite the number of remaining competitors in this market, the Banks' claims that economies of scale are important in this market suggest that smaller competitors are at a cost disadvantage. This may limit their effectiveness post-merger.

It is likely that if both proposed mergers were completed, the primary merchant acquiring market would be dominated by the two merged firms in most areas in Canada outside of Quebec.

CONCLUSIONS

(i) The proposed merger:

- **will result in a substantial lessening of competition in the *Visa* merchant acquiring market (the business of providing settlement of Visa credit card transactions to merchants).**

(ii) The proposed merger:

- **may result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring (the business of providing both terminals and settlement of credit card transactions to merchants) for SME merchants.**

  ***Primary* merchant acquiring is problematic and requires further detailed review at the local or regional level before we can confirm if a substantial lessening of competition will result.**

- **will result, at the national level, in a substantial lessening of competition for *primary* merchant acquiring for SME merchants should both mergers proceed.**

C. SECURITIES

Product Markets

Within this category of services we defined the following product markets:

Equity underwriting
Debt underwriting
Institutional equity trading
Institutional debt trading
Mergers and acquisitions advice
Full-service brokerage (execution of trades with advice)
Discount brokerage (execution of trades without advice)

We have concluded that the proposed merger does not raise competition concerns in the equity underwriting, debt underwriting, institutional equity trading, institutional debt trading, or mergers and acquisitions advice markets. These conclusions were reached because there are sufficient competitive alternatives remaining post-merger or applicable thresholds were not exceeded. However, a detailed review was required for the remaining product markets.

Full-service Brokerage

Full-service brokers are distinct from discount brokers because they provide advice.

Discount brokers cater to essentially "do-it-yourself" customers who do their own research or buy third-party research. They do not receive advice tailored to their individual needs. Consequently, the cost of full-service brokerage services is significantly different from the cost of discount brokerage. For example, the banks have indicated that a typical $450 trade with a full-service broker would cost $85 through a discount brokerage and $30 through an electronic discount broker.

These significant price differentials, combined with evidence that discount pricing does not discipline full-service pricing, indicate that full-service and discount brokerage services should be treated separately.

Geographic Market

The evidence indicates that the full-service brokerage business is local in scope. Most clients want local investment advice and a conveniently located office, close to where they live or work. This is demonstrated by the fact that both TD Evergreen, owned by Toronto-Dominion Bank, and CIBC/Wood Gundy have set up branch offices throughout Canada.

MARKET SHARES AND CONCENTRATION LEVELS

In order to determine the market position of the parties, the Bureau gathered first-hand information on assets under administration from full-service brokers in each local market. This measure is used in the industry to measure market shares. The alternative measure proposed recently, equity trading commissions, is readily available only on a provincial basis. It does not provide information on income derived from debt products or other sources. Accordingly, the Bureau has used the local market share data currently available.

In three of the 22 local markets in which the two firms compete, the merging parties have a combined market share of 35% or greater.

COMPETITIVE CRITERIA

Barriers to Entry

Barriers to entry and expansion into the full-service brokerage market are high. Building a base of trained investment advisers is both costly and time-consuming. Based on estimates from third parties, it costs between $300 000 and $800 000 to develop a successful investment adviser.

Integrated firms, such as CIBC Wood Gundy and TD Securities Inc./TD Evergreen, that offer full-service brokerage as well as equity underwriting and institutional trading, have a number of advantages over smaller unintegrated firms.

Reliable research is a key component of the advice given by the investment adviser. Research is also a necessary input into underwriting services and institutional trading. Integrated firms can more easily support the costs of research across three business lines – individual client services, underwriting services and institutional trading – than across just one line. Underwriting services also provide a competitive advantage in that clients of the integrated firm will have greater access to new issues of securities than clients of unintegrated firms. Bank-owned dealers have the additional advantage of obtaining a significant proportion of their business from referrals of bank branch customers.

Even with these advantages, growth in the full-service business has largely been accomplished by acquisitions, rather than internal growth. The recent acquisition of Midland Walwyn by Merrill Lynch is a case in point.

Removal of a Vigorous and Effective Competitor

The proposed merger removes an effective but relatively small competitor from most of the markets where the firms currently compete.

Effective Competition Remaining

Nesbitt Burns, RBC Dominion Securities, Merrill Lynch and Scotia McLeod provide effective competition in many local markets across Canada. Lévesque Beaubien Geoffrion, with approximately 1,300 investment advisers, is also an effective competitor, particularly in the province of Quebec. In a number of local markets, full-service firms compete with smaller full-service brokerages.

CONCLUSIONS

The proposed merger:

- **will result in a substantial lessening of competition in one market of the 22 local markets in which CIBC Wood Gundy and TD Evergreen compete in full-service brokerage;**

- **may result in a substantial lessening of competition in two markets; these markets are problematic and require further detailed review before we can confirm if a substantial lessening of competition will result;**

- **will not result in a substantial lessening of competition in 19 markets.**

These conclusions are based in part on the market share levels as measured by assets under administration in local markets. The Bureau would be prepared to review these conclusions, if information having a material impact becomes available at the local level which would indicate that the market shares, as calculated, significantly overstate the market position of the Bank-owned firms.

Appendix E identifies the markets that fall into each category.

Discount Brokerage (Execution of Trades without Advice)

As noted above, the Bureau has concluded that the execution of securities trades without advice is a separate product market. While full-service brokers will sometimes lower price for a trade where no advice is provided, in most cases there is a wide margin between prices charged by full-service brokers and discount brokers. The discount brokerage service offered by TD is called Greenline Investor Services (Greenline), while the service offered by CIBC is known as CIBC Investor's Edge.

Geographic Market

The discount brokerage market is national in scope. Trades are made via toll-free numbers and on-line through personal computers. While local physical presence assists in market penetration, it is not necessary to compete in this market. Discount brokers have national pricing.

Market Share and Concentration Levels

In order to determine the market position of the Banks, the Bureau has used assets under administration. This measure is used in the industry to measure market shares.

Based on this measure, a combined Greenline and CIBC Investor's Edge operation would represent over 45% of the discount brokerage market in Canada.

Competitive Criteria

Barriers to Entry

The barriers to entry appear to be moderate, as evidenced by the large number of recent entrants into this market. Since 1990, there have been nine new entrants, including the discount brokerage operations of the Canada Trust, Royal Bank, Bank of Montreal, CIBC, Bank of Nova Scotia, Caisses Desjardins, National Bank and Hongkong Bank of Canada. In addition to the bank-owned discount brokers, Versus Brokerage is currently offering a discount service over the Internet known as E*Trade.

The main barriers appear to be brand recognition and achieving sufficient scale to render the investments in call centres and technology profitable. All of the major banks have brand recognition and an ability to attract discount brokerage customers from their large base of existing bank customers.

The discount brokerage market has experienced significant growth in the past few years as investors seek lower fees for the purchase and sale of securities and mutual funds. This high level of growth has attracted new entrants.

Removal of an Effective and Vigorous Competitor

Documentary evidence collected by the Bureau indicates that other competitors view CIBC Investor's Edge as a price and technology follower in the market and that it has not been very successful in capturing non-CIBC customers. This evidence suggests that the CIBC discount brokerage operation is not a particularly vigorous competitor.

Effective Competition Remaining

As a result of new entrants into the discount brokerage business, the market share of the current leader, Greenline, has been steadily declining over the past few years.

Documentary evidence indicates that the Bank of Montreal's Investorline service is viewed as being very aggressive on pricing, with a product line second only to Greenline. RBC Action Direct offers similar products and pricing. The other firms have small market shares, but are growing. The entry of E*Trade, with its $27 flat fee for trades, has forced the other discounters, including Greenline, to respond with similar pricing for trading by computer.

CONCLUSION

The proposed merger:

- **will not result in a substantial lessening of competition in the national market for discount brokerage services.**

This conclusion takes into account the moderate barriers to entry combined with the number of new competitors, which together have steadily eroded the dominant position of Greenline.

EFFICIENCY CLAIMS

As the Guidelines state, the onus of demonstrating efficiencies rests with the Banks. The CIBC and TD claim that cost savings will result if they are permitted to merge. The Banks estimate that the merger will result in annual cost savings of at least 10% of the non-interest expense of the combined bank.

While it is difficult to quantify efficiencies pre-merger, it seems reasonable that the proposed merger would produce cost savings. A variety of studies and consultants' reports reviewed by the Bureau identify three general areas in which a bank merger can be the source of cost savings.

Efficiency gains from a bank merger may arise through greater scale economies or rationalization in banking operations. This may be done by consolidating payment services, deposit inquiries and accounting, and loan-monitoring operations. Further gains may be realized through the expansion of the range of banking products. Adding new products to existing lines of business can allow for economies of scope rather than providing products individually. By adopting each other's best practices, banks can realize further important efficiencies.

However, the same studies also indicate that these potential efficiencies may not be realized in all mergers.

U.S. research of mergers between large banks indicates that the cost savings expected by CIBC and TD are consistent with those realized only after successful integration. The studies show that successful integration is more likely to occur if merging banks have previously participated in a large merger. Both CIBC and TD have had experience in smaller acquisitions. Yet neither has merged with an organization of comparable size. This adds to the difficulty of assessing the likelihood of the merger successfully generating the expected efficiencies.

Research also indicates that about one-half of large bank mergers reduce costs, while one-half realize no change in costs, or even incur increased costs. Thus, it is unclear the extent to which the claimed efficiencies will be realized.

When it is likely that the efficiencies would outweigh the anti-competitive impact of a merger, the *Competition Act* provides an exception to allow the merger to proceed. As outlined in the Guidelines, it has been the Bureau's policy that, in non-bank cases where there is a likelihood of a substantial lessening or prevention of competition, as there is in this case, and the parties to the merger are claiming efficiency gains, the case would be brought to the Competition Tribunal for resolution.

However, in this case, efficiency gains arising from the merger, to a large extent, will be shaped by the public interest concerns to be expressed by the Minister of Finance. Given these circumstances, the Banks will not be able to accurately project the magnitude of the efficiencies until such time as they hear from the Minister of Finance.

THE TASK FORCE ON THE FUTURE OF THE CANADIAN FINANCIAL SERVICES SECTOR

The Bureau stated in its Guidelines that in reviewing the proposed bank mergers it would consider the impact on the regulatory environment of recommendations made by the Task Force. Enhancing competition in the financial services sector is a major focus of the Task Force report, released on September 15, 1998.

The Bureau welcomes the Task Force's emphasis on increased competition and views its recommendations aimed at enhancing competition as a positive step.

Among the various measures proposed by the Task Force to enhance competition, those relating to ownership structure, enhancing the capacity of the co-operative sector, and access to the payments system have the potential for the greatest impact on the marketplace.

Overall, even if a decision to adopt all the pro-competitive recommendations made by the Task Force were made immediately, the decision would be unlikely to have a substantial impact on competition in the markets of concern within the two-year time frame used in the Bureau's merger analysis. Making the legislative changes needed to implement regulatory reforms will take some time and there would likely be some delay before market participants would respond.

Since the impact of the Task Force's recommendations is more likely to be felt beyond the Bureau's two-year time frame, the proposed mergers were assessed in the context of the existing regulatory framework. As noted above, economic barriers affecting the state of competition in the relevant markets are significant. As a result, even if the regulatory environment envisioned by the Task Force were implemented today, the Bureau's assessment of the proposed mergers would likely reach the same conclusions.

The Task Force report also commented on the analytical framework used by the Bureau in reviewing mergers in the financial services sector. While supporting the approach outlined in the Guidelines, the Task Force suggests that the Bureau give particular attention to a number of factors relating to market definition and the impact of a bank merger within certain markets.

Specifically, the Task Force recommended that the Bureau pay particular attention to the following:

- the competition concerns of small and medium-sized business,
- users of personal financial services who may still be branch-dependent, and

- the new competitive choices that already exist in respect of certain product lines and that are also likely to emerge as a result of new distribution channels and the liberalization of public policy constraints.

In assessing the proposed mergers, the Bureau considered each of these factors carefully. The impact of technology on the delivery of financial services, particularly the emergence of new distribution channels, is a prominent theme in the Task Force report. We agree, and have highlighted how the Bureau considered technology in its assessment of the proposed mergers.

POTENTIAL REMEDIES

Following the process outlined in the Guidelines, it is not practical to consider possible remedies until the Banks have heard the public interest concerns of the Minister of Finance. However, it is useful to highlight the process that has typically been followed by the Bureau, the principles it sees as important in pursuing any remedies, and the types of remedies that have been applied to competition concerns in other cases.

After being informed of the competition concerns by the Bureau, the onus then lies with the Banks to determine whether or not they wish to proceed with the proposal, and if so, to identify and present remedies that remove these concerns. To be effective, a remedy must embody the following principles:

- The substantial lessening of competition must be removed in all affected markets.
- It must permit sustained and effective competition so that consumers will continue to enjoy the benefits of competition.
- It must be implemented on a timely basis. For instance, assets should be sold prior to the completion of the merger, or within a specified time thereafter. Failure to comply would result in assets being placed in the hands of a trustee for sale.
- The necessity for ongoing regulatory oversight should be limited.
- Implementation of the remedy must be enforceable and transparent.

Traditionally, the above principles have been satisfied through remedies that focussed on structural rather than behavioural measures. Assuming the Banks decide that it is appropriate to proceed further, the most effective structural remedy is the divestiture of assets away from the merged company to others that will provide effective and sustainable competition. There is no formula for identifying in advance which assets may satisfy such conditions. Rather, to the extent that such a remedy is possible, it is case-specific and dependent upon the nature and extent of the competition concerns identified.

With regard to remedies pursued in other countries, concerns similar to those identified in the current proposal about branch banking have been resolved through branch divestitures. Such remedies have generally been considered to be effective in the United States. However, whether or not such a remedy would be either practical or sufficient to address the concerns identified in this letter remains to be determined. The viability of such a remedy also depends on the financial strength of the purchaser and its ability to support branch banking operations.

The divestiture of brand names has often been a consideration in other mergers and may be highly appropriate for bank mergers. Acquiring a recognized brand may assist the purchaser in establishing a strong market presence more quickly.

It should also be noted that the market share threshold to which divestiture would be required may well depend on whether or not the proposed Royal Bank-Bank of Montreal transaction proceeds. If it proceeds, a lower market share threshold may be required because of the increased concentration that would occur by both mergers occurring simultaneously.

Branch bank divestitures, which might have an impact on the primary merchant acquiring market and the Visa merchant acquiring market, would have to be examined from that perspective. In addition, the constitution of Visa would have to ensure that no single member could dominate Visa Canada.

As the foregoing indicates, the proposed transaction raises serious competition issues. The Bureau has given consideration to each of these issues and has attempted to explain the basis for its conclusions as fully as possible, while taking into account the importance of the proposed merger and respecting the confidentiality provisions in the *Competition Act*.

As stated in the Guidelines, if after receipt of this letter and taking into account any public interest concerns expressed by the Minister of Finance, the Banks decide it is appropriate to explore potential remedies with the Bureau, we would be pleased to do so at your convenience.

Yours sincerely,

Konrad von Finckenstein, Q.C.

Appendix A

Glossary

Assets under administration
Assets administered or managed by a financial institution which are beneficially owned by clients or investors.

Barriers to entry
Anything that makes effective entry into a market within two years less likely or more difficult. To be effective, entry must be of a sufficient scale to ensure that any material price increase or any reduction in service reverts to competitive levels. Entry barriers could include:

- switching costs incurred by customers,
- sunk costs incurred by an entrant,
- tariff and non-tariff barriers to international trade, and
- regulatory control over entry.

Census Agglomeration (CA)
An urban area of more than 10,000 persons with a high degree of social and economic integration.

Census Metropolitan Area (CMA)
A large urban area of more than 100,000 persons that has a high degree of social and economic integration.

Concentration ratio or four firm concentration ratio (CR4)
The share of the market accounted for by the four largest firms in the market, usually in terms of the percentage of sales.

Credit card acquiring
The services provided by credit card acquirers to merchants that enable merchants to accept credit card payment from their customers and to receive payment for credit card purchases. Financial institutions providing only the processing and payment settlements of credit card purchases are referred to as Visa or MasterCard Merchant Acquirers. Financial institutions that also provide the computer terminal and software along with the processing and payment settlements services are referred to as Primary Merchant Acquirers.

Credit card issuing
The provision of the plastic credit card to consumers. A credit card issuer typically refers to a financial institution that issues a card which can be used by a consumer to purchase goods or services on credit.

Credit card network services
The system that enables individual cardholders to have their cards widely accepted for the purchase of goods and services. The two major credit card networks in Canada are Visa and MasterCard.

Discount Brokerage
The execution of securities trades without advice. The discount broker buys and sells stock. Clients perform their own research or buy third party research, and therefore pay much less to execute trades.

Economies of scope
Savings from producing two or more products or services together rather than separately.

Economies of scale
Savings that arise when the average or unit cost of producing a product or service decreases as the volume produced increases.

Efficiency gains
Cost savings to the economy. These cost savings must represent real savings in economic resources, rather than private gains to the merging parties that result, for example, from an increase in bargaining power with suppliers. Efficiency gains fall into two broad classes: production efficiencies and dynamic efficiencies. Production efficiencies result from real long run savings in resources which permit firms to produce more output or better quality output from the same amount of input. Dynamic efficiencies include gains attained through the optimal introduction of new products, the development of more efficient productive processes, and the improvement of product quality and service.

Full Service Brokerage
The execution of securities trades bundled with advice custom tailored to the clients portfolio.

Interchange fee
A charge set by a credit card association that is paid to the issuer of a credit card by the merchant's credit card acquirer. The interchange fee is a component of the merchant discount rate (MDR) that is levied on the merchant for the processing and settlement of credit card transactions.

Interdependent behaviour
Explicit or implicit understandings among firms in the market to jointly exercise market power or limit competition on price, quality, service, or any other dimension. Interdependent behaviour refers to conduct by a group of firms that is profitable for each of them only because of the accommodating co-operative conduct of the others. Such behaviour is more likely in markets in which firms can recognize and reach a co-operative understanding, monitor one another's behaviour, and respond to any deviations from the co-operating behaviour by others. By reducing the number of competitors in a market, a merger can facilitate interdependent behaviour among firms, including those that are not party to the merger.

Investment adviser
An individual whose principal task is giving professional advice on investments and management of assets.

Large corporate businesses
Businesses with borrowing requirements in excess of $15 million. These firms generally have access to international equity and credit markets.

Line of credit
Commitment by a financial intermediary to lend up to a specified amount to a customer on request.

Market power
The ability of firms to profitably influence price, quality, variety, service, advertising, innovation or other dimensions of competition.

Merchant Discount Rate (MDR)
A fee levied on a merchant by a financial institution for the processing and settlement of credit card transactions. This fee, known as the merchant discount rate, is applied to the dollar volume of credit card purchases and is deducted from the merchant's transaction account.

Mid-market enterprises
Businesses with borrowing requirements in the $1 million to $15 million range. They are divided into two segments:

- $1 million to $5 million
- $5 million to $15 million.

Money market mutual funds
A fund that issues and buys back units or shares representing pro-rata ownership of a managed portfolio of short-term assets, usually less than one year. These assets are highly liquid.

Operating loans
Short term business credit or loans to businesses for working capital purposes.

Payments system
The Canadian payments system consists of a set of separate networks that include the cheque payments system, the credit card systems of Visa and MasterCard, the automatic banking machine (ABM) and debit card networks of Interac, and the separate clearing systems for debt and equities, and for mutual funds. At the centre of the system is the Canadian Payments Association (CPA), which has the mandate under the *Canadian Payments Association Act* (the *CPA Act*) to operate a national clearing and settlement system. Members use this system to settle claims arising from their customers' cheque payments and receipts, and to discharge their net claims from transactions in the other networks.

Personal loans
Loans generally obtained by consumers in small amounts and for non-business purposes. Examples include home improvement loans and loans to finance the purchase of consumer goods and services.

Personal short term savings
Savings which include guaranteed investment certificates, money market mutual funds, Canada and provincial savings bonds, and treasury bills.

Relevant market
The relevant or 'antitrust' market is the product area over which a firm could exercise market power. Technically, it is defined to include the smallest group of products and the smallest geographic area. If this product grouping were provided by a sole supplier, the supplier could profitably maintain a small but significant, non-transitory price increase. In this context, 'significant', usually means five percent, and 'non-transitory' means a price increase lasting at least one year.

Residential mortgages
A loan to buy a real estate property, typically a home, secured by the value of the property. It is the principal type of long term personal debt, with terms ranging up to10 years and amortization typically in the 20 to 25-year range.

Retail banking
Banking services offered to the general public, including consumers, commercial enterprises, and small and medium-sized enterprises. Banking associated mainly with personal banking services and small-scale operations.

Rural market
Bank branches, outside of urban areas, located within 20 kilometres of each other were considered to be within the same rural market.

Schedule I Banks
Banks subject to the ownership regime which, in the context of the current *Bank Act*, refers to the provision that no individual can acquire more than 10 percent of any class of shares in a federally incorporated financial institution without the approval of the Minister of Finance.

Schedule II Banks
The *Bank Act* classifies banks as Schedule I or Schedule II banks. Different ownership rules apply to each type of bank. Schedule II banks, which are permitted to be closely-held upon incorporation, are mostly subsidiaries of foreign banks and are restricted in size. Schedule II Banks with more than $750 million in shareholder's equity

are required to have 35% of their voting common shares widely held and publicly traded.

Security dealers
Firms which handle securities transactions, either for individual clients, institutional clients or on their own behalf. Other services which are often provided include research and advice on securities trading, merger and acquisition advice and underwriting services.

Small and medium sized enterprises (SMEs)
Businesses with borrowing authorizations of less than $1 million. They are divided into two segments:

- up to $200,000
- $200,000 to $1 million.

Substantial lessening or prevention of competition
The price of the relevant product is likely to be materially greater, or quality and service materially reduced, in a substantial part of the relevant market than it would be in the absence of the merger. This price, quality or service would not likely be eliminated within two years by new or increased competition from existing or new competitors.

Sunk costs
The component of the purchase price of the a highly specialized asset, that is irrecoverable.

Switching costs
Costs which discourage consumers from switching to competing suppliers. An entrant must compensate consumers for their costs of switching by offering them higher quality or lower price.

Syndicate
A group of financial intermediaries that act jointly on a temporary basis to make loans or to underwrite a new issue of securities.

Ten percent (10%) rule
Ownership regime which, in the context of the *Bank Act* refers to the provision that no individual can acquire more than 10 percent of any class of shares in a federally incorporated financial institution without the approval of the Minister of Finance.

Term loan
Loans, including non-residential mortgages, which are generally intermediate to longer term in nature, and are typically secured by collateral to purchase equipment, buildings, and real estate.

Third party processor
A non-bank that processes credit card transactions, including the provision of transaction verification for merchants and other information-based services.

Transaction accounts
Services which enable an account holder to make deposits and withdrawals through savings or chequing accounts on short notice either at the local branch or some other channel such as an ABM, debit card, telephone or computer, and to receive reports on those activities.

Underwriting
An undertaking from a securities dealer to assume the risk of buying a new issue of securities from the issuing company or government entity and to sell the securities to the public or to institutional investors.

Urban market
A geographic area that has been defined as a Census Agglomeration (CA) or Census Metropolitan Area (CMA) by Statistics Canada.

Appendix B

Criteria Used for Local Market Classification

To ensure that competition concerns in each local market in which the Banks compete are accurately identified, the Competition Bureau used the following approach.

Personal and business transaction accounts in each local market are the core of most banking relationships for consumers and businesses, consequently if the Banks' combined market share:

- of either the personal or business transaction accounts is 45% or more, the local geographic market falls in the category of *'Will result in a substantial lessening of competition'*.
- of either the personal or business transaction accounts is between 35% and 45%, or any of the following product categories – personal loans/lines of credit, residential mortgages, small- or medium-sized business operating loans – is 35% or greater, the local geographic market falls into the category of *'May result in a substantial lessening of competition'*.
- of either the personal or business transaction accounts, and any of the following product categories – personal loans/lines of credit, residential mortgages, small- or medium-sized business operating loans – is below 35%, the local geographic market falls into the category of *'Will not result in a substantial lessening of competition'*.

These rules have been adjusted to discount for very small changes in market share.

The detailed formula applied to each local market is set out below.

'Will result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is 45% or more, **and**
  - the market share being acquired as a result of the merger is 5% or more.

'May result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is 45% or more, **and**
  - the market share being acquired as a result of the merger is less than 5%

  OR

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is between 35% and 45%, **and**
  - the market share being acquired as a result of the merger is 5% or more

OR

- the combined market share of the merging parties in
  - any one of the following: personal loans/lines of credit, residential mortgages, small- and medium-sized business operating loans are 35% or greater, **and**
  - the market share being acquired as a result of the merger is 5% or more.

'Will not result in a substantial lessening of competition'

Local geographic markets fall into this category if:

- the combined market share of the parties is below 35% in any product market

OR

- the combined market share of the merging parties in
  - **either** personal or business transaction accounts is between 35 and 45%, **and**
  - the market share being acquired as a result of the merger is less than 5%

OR

- the combined market share of the merging parties in
  - any of the following: personal loans/lines of credit, residential mortgages, small- and medium-sized business operating loans are 35% or greater **and**
  - the market share being acquired as a result of the merger is less than 5%.

Appendix C

Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

This appendix sets out the urban and rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
NFLD	Corner Brook		
NFLD	Gander		
NFLD	St. John's		
PEI		Charlottetown	
PEI		Summerside	
NS		Amherst (Rural)	
NS	Bridgewater (Rural)		
NS	Cape Breton		
NS	Halifax		
NS	Kentville		
NS	New Glasgow		
NS		Truro	
NS	Yarmouth (Rural)		
NB	Bathurst		
NB	Campbellton		
NB		Fredericton	
NB	Miramichi (Rural)		
NB	Moncton		
NB	Saint John		
PQ	Chicoutimi		
PQ	Drummondville		
PQ	Granby		
PQ	Montréal		
PQ	Québec		
PQ	Rouyn-Noranda		
PQ	Saint-Jean-sur-Richelieu		
PQ	Sherbrooke		
PQ	Sorel		
PQ		Val-d'Or	
ONT			Amherstburg (Rural)

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Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

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Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
ONT	Arnprior (Rural)		
ONT			Atikokan (Rural)
ONT		Barrie	
ONT			Beaverton (Rural)
ONT	Belleville		
ONT		Bracebridge (Rural)	
ONT		Brantford	
ONT		Brockville	
ONT			Chatham
ONT			Cobourg
ONT			Collingwood
ONT	Cornwall		
ONT			Creemore (Rural)
ONT			Dover (Rural)
ONT		Dryden (Rural)	
ONT		Dunnville (Rural)	
ONT		Elliot Lake	
ONT		Fergus (Rural)	
ONT		Forest (Rural)	
ONT			Fort Frances (Rural)
ONT			Gananoque (Rural)
ONT		Guelph	
ONT		Hamilton	
ONT	Hanover (Rural)		
ONT	Hawkesbury		
ONT			Huntsville (Rural)
ONT		Ingersoll (Rural)	
ONT			Kenora
ONT	Kincardine (Rural)		
ONT		Kingston	

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Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

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Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
ONT			Kirkland Lake (Rural)
ONT	Kitchener		
ONT		Leamington	
ONT			Lindsay
ONT		London	
ONT		Markdale (Rural)	
ONT		Midland	
ONT			Minden (Rural)
ONT			Mitchell (Rural)
ONT		Mount Forest (Rural)	
ONT	Nanticoke (Rural)		
ONT			Napanee (Rural)
ONT			New Hamburg (Rural)
ONT		New Liskeard (Rural)	
ONT		North Bay	
ONT		Norwich (Rural)	
ONT		Orillia	
ONT		Oshawa	
ONT	Ottawa - Hull		
ONT	Owen Sound		
ONT			Parry Sound (Rural)
ONT	Pembroke		
ONT	Perth (Rural)		
ONT		Peterborough	
ONT			Petrolia (Rural)
ONT	Picton (Rural)		
ONT			Port Elgin (Rural)
ONT	Port Hope		
ONT	Sarnia		
ONT		Sault Ste. Marie	

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Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

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Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
ONT		Seaforth (Rural)	
ONT		Simcoe	
ONT		Smiths Falls	
ONT		St. Catharines	
ONT	Stratford		
ONT		Sudbury	
ONT		Thunder Bay	
ONT			Tillsonburg
ONT	Timmins		
ONT		Toronto	
ONT			Walpole Island (Rural)
ONT			Windsor
ONT			Wingham (Rural)
ONT	Woodstock		
MAN	Brandon		
MAN			Dauphin (Rural)
MAN	McAuley (Rural)		
MAN	Morden (Rural)		
MAN		Portage la Prarie	
MAN	Selkirk (Rural)		
MAN	Steinbach (Rural)		
MAN			Stonewall (Rural)
MAN	The Pas (Rural)		
MAN			Thompson
MAN	Winnipeg		
SASK	Assiniboia (Rural)		
SASK	Estevan		
SASK	Kindersley (Rural)		
SASK	Melfort (Rural)		
SASK	Moose Jaw		

Appendix C

Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
SASK	Mossbank (Rural)		
SASK	North Battleford		
SASK	Prince Albert		
SASK	Regina		
SASK	Saskatoon		
SASK	Swift Current		
SASK	Weyburn (Rural)		
SASK	Yorkton		
ALTA		Brooks (Rural)	
ALTA	Calgary		
ALTA	Camrose		
ALTA		Peace River (Rural)	
ALTA	Edmonton		
ALTA		Grand Centre	
ALTA	Grande Prairie		
ALTA	High River (Rural)		
ALTA			Jasper (Rural)
ALTA	Lacombe (Rural)		
ALTA	Lethbridge		
ALTA	Lloydminster		
ALTA			Mayerthorpe (Rural)
ALTA	Medicine Hat		
ALTA	Olds (Rural)		
ALTA	Red Deer		
ALTA			Smoky Lake (Rural)
ALTA		St Paul (Rural)	
ALTA		Stettler (Rural)	
ALTA		Vegreville (Rural)	
ALTA		Vermilion (Rural)	
ALTA			Wetaskiwin

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Canadian Imperial Bank of Commerce and Toronto-Dominion Overlap Markets

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	Will Not Result in a Substantial Lessening of Competition	May Result in a Substantial Lessening of Competition	Will Result in a Substantial Lessening of Competition
Province	90 Geographic Markets with 862 Canadian Imperial Bank of Commerce Toronto-Dominion Branches	53 Geographic Markets with 827 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches	36 Geographic Markets with 131 Canadian Imperial Bank of Commerce & Toronto-Dominion Branches
ALTA	Wood Buffalo		
BC	Abbotsford		
BC		Campbell River	
BC	Chilliwack		
BC	Courtenay		
BC		Cranbrook	
BC		Dawson Creek	
BC	Duncan		
BC			Fernie (Rural)
BC		Fort St. John	
BC		Kamloops	
BC	Kelowna		
BC	Nanaimo		
BC	Parksville (Rural)		
BC	Penticton		
BC	Port Alberni		
BC	Prince George		
BC			Prince Rupert
BC	Quesnel		
BC		Revelstoke (Rural)	
BC	Salmon Arm (Rural)		
BC	Terrace		
BC		Trail (Rural)	
BC	Vancouver		
BC	Vernon		
BC	Victoria		
BC	Williams Lake		
YT			Whitehorse
NWT			Yellowknife

Appendix D

Rural Geographic Market Names and Related Branch Locations

This appendix describes in more detail the rural markets which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any branch located in any market listed in this appendix.

Province	**Names of Rural Geographic Markets**	**Branch Locations**
Newfoundland	Stephenville	STEPHENVILLE
		STEPHENVILLE CROSSING
Nova Scotia	Amherst	AMHERST
	Antigonish	ANTIGONISH
		CANSO
		HAVRE BOUCHER
	Bridgewater	BRIDGEWATER
		LUNENBURG
		MAHONE BAY
		NEW GERMANY
	Liverpool	BROOKLYN
		LIVERPOOL
	Port Hawkesbury	PORT HAWKESBURY
		RICHMOND
	Yarmouth	LOWER EAST PUBNICO
		TUSKET
		WEDGEPORT
		YARMOUTH
New Brunswick	Dalhousie	CAMPBELLTON
		CHARLO
		DALHOUSIE
		DUNDEE
		EEL RIVER CROSSING
	Grand Falls (Grand-Sault)	GRAND FALLS
		GRAND SAULT
		ST-LEONARD
	Miramichi	CHATHAM
		CURTIS PARK
		MIRAMICHI
		NEWCASTLE
	St. Stephen	ST. STEPHEN
	Studholm	NORTON
		SUSSEX
Quebec	Sainte-Agathe-des-Monts	MONT-ROLLAND (PREVOST)
		SAINTE-ADELE

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Province	Names of Rural Geographic Markets	Branch Locations
		SAINTE-AGATHE-DES-MONTS
		STE-MARGUERITE-DU-LAC-MASSON
		ST-FAUSTIN
		ST-SAUVEUR-DES-MONTS
		VAL DAVID
	Shawville	CAMPBELLS BAY
		SHAWVILLE
Ontario	Alexandria	ALEXANDRIA
		LANCASTER
		MAXVILLE
	Almonte	ALMONTE
		CARLETON PLACE
	Amherstburg	AMHERSTBURG
		HARROW
	Arnprior	ARNPRIOR
	Atikokan	ATIKOKAN
	Aylmer	AYLMER
	Beaverton	BEAVERTON
		CANNINGTON
		PEFFERLAW
		SUNDERLAND
	Blenheim	BLENHEIM
		HIGHGATE
		RIDGETOWN
	Bracebridge	BRACEBRIDGE
		GRAVENHURST
	Campbellford	CAMPBELLFORD
		HASTINGS
		NORWOOD
		WARKWORTH
	Chapleau	CHAPLEAU
		ESPANOLA
	Creemore	ANGUS
		CREEMORE
		DUNDALK

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Province	Names of Rural Geographic Markets	Branch Locations
		SHELBURNE
		STAYNER
	Dover	DRESDEN
	Dryden	DRYDEN
	Dunnville	DUNNVILLE
	Exeter	AILSA CRAIG
		EXETER
		HENSALL
		SEBRINGVILLE
		ZURICH
	Fergus	ELORA
		FERGUS
	Forest	ARKONA
		FOREST
		WATFORD
	Fort Frances	FORT FRANCES
	Gananoque	GANANOQUE
		LANSDOWNE
	Goderich	GODERICH
	Hanover	AYTON
		CLIFFORD
		ELMWOOD
		HANOVER
		WALKERTON
	Huntsville	HUNTSVILLE
	Ingersoll	BEACHVILLE
		INGERSOLL
	Kincardine	KINCARDINE
		RIPLEY
	Kirkland Lake	ENGLEHART
		KIRKLAND LAKE
	Listowel	ATWOOD
		LISTOWEL
		MILVERTON
		PALMERSTON

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Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
	Markdale	CHATSWORTH
		FLESHERTON
		MARKDALE
	Minden	MINDEN
	Mitchell	MITCHELL
	Morrisburg	CARDINAL
		IROQUOIS
		MORRISBURG
		SPENCERVILLE
	Mount Forest	ARTHUR
		HARRISTON
		MOOREFIELD
		MOUNT FOREST
	Nanticoke	CAYUGA
		FISHERVILLE
		HAGERSVILLE
		JARVIS
		NANTICOKE
		PORT DOVER
		SCOTLAND
		WATERFORD
	Napanee	NAPANEE
	New Hamburg	DRUMBO
		LINWOOD
		NEW DUNDEE
		NEW HAMBURG
		PLATTSVILLE
		ST CLEMENTS
		TAVISTOCK
		WELLESLEY
	New Liskeard	NEW LISKEARD
	Norwich	DELHI
		NORWICH
		OTTERVILLE
	Ohsweken	OHSWEKEN

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
	Parry Sound	PARRY SOUND
	Perth	PERTH
	Petrolia	PETROLIA
		WYOMING
	Picton	CONSECON
		PICTON
		WELLINGTON
	Port Elgin	PAISLEY
		PORT ELGIN
		SOUTHAMPTON
		TARA
	Port Perry	LITTLE BRITAIN
		PORT PERRY
	Prescott	PRESCOTT
	Renfrew	RENFREW
	Seaforth	CLINTON
		DUBLIN
		SEAFORTH
	St. Marys	EMBRO
		ST MARYS
		THAMESFORD
	Tilbury	MERLIN
		POINTE-AUX-ROCHES
		TILBURY
	Walpole Island	SOMBRA
		WALPOLE ISLAND
	Wawa	WAWA
	West Lorne	DUTTON
		GLENCOE
		RODNEY
		WEST LORNE
	Westport	WESTPORT
	Winchester	CHESTERVILLE
		CHRYSLER
		FINCH

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
		SOUTH MOUNTAIN
		WILLIAMSBURG
		WINCHESTER
	Wingham	BLYTH
		BRUSSELS
		MONKTON
		WINGHAM
		WROXETER
Manitoba	Dauphin	DAUPHIN
		GILBERT PLAINS
	Lac du Bonnet	LAC DU BONNET
		PINAWA
	McAuley	ELKHORN
		MC AULEY
	Morden	CARMAN
		MIAMI
		MORDEN
		WINKLER
	Neepawa	NEEPAWA
	Selkirk	PEGUIS
		SELKIRK
		WINNIPEG BEACH
	Steinbach	GRUNTHAL
		STEINBACH
	Stonewall	STONEWALL
		TEULON
	Swan River	SWAN RIVER
	The Pas	THE PAS
	Whitewater	DELORAINE
		SOURIS
		WAWANESA
Saskatchewan	Assiniboia	ASSINIBOIA
		VICEROY
	Davidson	DAVIDSON
		IMPERIAL

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
		SIMPSON
	Esterhazy	ESTERHAZY
		STOCKHOLM
	Humboldt	HUMBOLDT
		MEACHAM
		PLUNKET
	Kelliher	ITUNA
		KELLIHER
		LESTOCK
	Kindersley	KINDERSLEY
	Melfort	MELFORT
	Melville	MELVILLE
	Mossbank	CODERRE
		GRAVELBOURG
		MOSSBANK
	Nipawin	CARROT RIVER
		CODETTE
		NIPAWIN
	Outlook	LUCKY LAKE
		OUTLOOK
	Tisdale	ARCHERWILL
		KELVINGTON
		TISDALE
	Weyburn	WEYBURN
Alberta	Brooks	BROOKS
	Canmore	BANFF
		CANMORE
	Consort	CONSORT
		HUGHENDEN
		PROVOST
	Drayton Valley	DRAYTON VALLEY
	Drumheller	DELIA
		DRUMHELLER
		MORRIN
	Hanna	HANNA

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
		SIKSIKA
	High River	BLACK DIAMOND
		HIGH RIVER
		NANTON
		OKOTOKS
		TURNER VALLEY
	Jasper	JASPER
	Lacombe	LACOMBE
	Mayerthorpe	MAYERTHORPE
	Olds	CARSTAIRS
		DIDSBURY
		OLDS
	Peace River	GRIMSHAW
		MANNING
		PEACE RIVER
	Ponoka	HOBBEMA
		PONOKA
	Smoky Lake	BOYLE
		SMOKY LAKE
		WASKATENAU
	St Paul	ST PAUL
	Stettler	STETTLER
	Taber	TABER
	Three Hills	LINDEN
		THREE HILLS
		TROCHU
	Vegreville	MUNDARE
		VEGREVILLE
	Vermilion	DEWBERRY
		VERMILION
	Wainwright	WAINWRIGHT
	Westlock	WESTLOCK
	Whitecourt	WHITECOURT
British Columbia	Ashcroft	ASHCROFT
		CACHE CREEK

Appendix D

Rural Geographic Market Names and Related Branch Locations

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Province	Names of Rural Geographic Markets	Branch Locations
	Creston	CRESTON
	Fernie	FERNIE
	Gibsons	GIBSONS
		SECHELT
	Kimberley	KIMBERLEY
	Ladysmith	LADYSMITH
	Merritt	MERRITT
	Nelson	NELSON
	Osoyoos	KEREMEOS
		OLIVER
		OSOYOOS
	Parksville	NANOOSE BAY
		PARKSVILLE
		QUALICUM BEACH
	Revelstoke	REVELSTOKE
	Salmon Arm	ARMSTRONG
		CRAWFORD BAY
		ENDERBY
		SALMON ARM
	Smithers	SMITHERS
	Squamish	GARIBALDI HIGHLANDS
		SQUAMISH
	Summerland	SUMMERLAND
	Trail	ROSSLAND
		TRAIL
Northwest Territories	Iqaluit	IQALUIT

Appendix E

CIBC Wood Gundy and Toronto Dominion Securities Inc.
Overlap Markets

This appendix lists the markets in which both bank-owned firms compete in full-service brokerage services and which we have examined as part of our competition review. It is up to the Banks to propose how to address the conclusions set out in this letter. No inference is made and none should be drawn about the future of any office located in any market listed in this appendix.

	Will Not Result in a Substantial Lessening of Competition	**May Result in a Substantial Lessening of Competition**	**Will Result in a Substantial Lessening of Competition**
Province	**19 Markets**	**2 Markets**	**1 Market**
NFLD	St. John's		
PEI	Charlottetown		
NB	Saint John		
NS	Halifax		
PQ	Montréal		
PQ	Québec City		
ONT		Barrie	
ONT	Hamilton		
ONT		Kingston	
ONT	Kitchener/Waterloo		
ONT	London		
ONT			Owen Sound
ONT	Ottawa		
ONT	Toronto		
MAN	Winnipeg		
SASK	Regina		
SASK	Saskatoon		
ALTA	Calgary		
ALTA	Edmonton		
BC	Kelowna		
BC	Vancouver		
BC	Victoria		